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VOLUME XVII, No. 1 MARCH, 1950

PROCEEDINGS

of the

FOURTEENTH ANNUAL MEETING

NEW YORK, NEW YORK

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Part I — Papers Read at Annual Meeting

Statistical and Actuarial Procedures in Liability Insurance

by

Thomas O. Carlson, Actuary, National Bureau of Casualty Underwriters

When I first came to think over my acceptance of the invitation to address this joint meeting of the American Statistical Association and the American Association of University Teachers of Insurance, I was a little panic stricken at the idea that I was required to speak to two distinctly different planes equally unfamiliar to me, one of them the technical plane of the professional statistician and the other the philosophical plane of the professional teacher. As the difficulties of this task grew upon me, I decided to abandon any such thought of attempting the impossible and to speak to you in the same manner that I would use in addressing a group of company executives or of supervisory officials, on the humble level of every day common sense which is the backbone of our so-called actuarial science.

The teachers of insurance are familiar with insurance terminology, but for the benefit of the non-insurance statisticians in the audience, I shall begin my talk with some insurance fundamentals, and shall try to define terms as we meet them.

A statistician, in the general use of the term, is both a compiler and an interpreter of statistics. In the insurance business these two functions are differentiated into two different professions, although the differentiation is becoming almost as indistinct currently as the differentiation between physics and chemistry. The insurance statistician is primarily the compiler of statistics, and the interpretation of statistics is handled by the actuary. To the underwriter, the actuary used to be a statistician with a touch of the zany, nor did the underwriter subscribe to the Oriental belief that zany and sainted are synonyms, but the casualty actuary today is coming into his own, just as the life actuary did many decades ago.

The fundamental differences between the life, the fire, the casualty and the marine fields have in the past been as great from the actuary's standpoint as from the underwriter's standpoint. All of these lines have the common objective of trying to predict future developments from the statistics of the past. The life actuary, for the most part, is working with long-term predictions based upon a volume of experience which surpasses many times the experience that is available for utilization in the other insurance fields, and with comparatively little differentiation into classifications. It is natural, therefore, that in the life insurance field actuarial prediction has been raised to the level of a mathematical science to a degree which

marks it distinctly apart from the other insurance fields. The marine field lies at the other extreme because the differences from risk to risk are so great that the individual risk's problems predominate and underwriting judgment consequently plays a much larger role actuarially than in casualty, fire or life insurance. While the fire field is more nearly analogous to the casualty field than the other two, it is nevertheless sharply differentiated actuarially in two ways: in the first place, with all due respect to the headaches vocalized by fire insurance underwriters and statisticians, it is more homogenous than the casualty field; and in the second place, fire insurance settlements, as a rule, involve little litigation, whereas the principal casualty lines provide insurance against liability imposed by law under given circumstances with the result that on such lines a large proportion of claim settlements may be long delayed.

The casualty field is the catch-all field of insurance, embracing such a diversity of coverages as accident and health, workmen's compensation, bodily injury liability, property damage liability, collision, burglary, glass breakage, boiler and machinery, live stock and credit, together with a host of minor coverages. I have omitted the important fidelity and surety lines from this listing because they present actuarial problems which set them off virtually in a fifth field.

The liability coverages are broadly divisible into two groups, those providing for insurance against liability imposed on an individual for bodily injury to a third party resulting from that individual's acts, and those providing for corresponding liability for damage to the property of a third property. Jointly, they are termed third party liability coverages, and the two groups are referred to as bodily injury and property damage liability respectively.

There is a very great diversity in the rates charged for liability insurance coverage, such rates varying according to the type of hazard involved and also in most instances by territory throughout the United States. These coverages are so numerous and so varied that the underwriting rules and rates for handling them are spread through no less than nine different manuals, some of them numbering hundreds of pages. The most important line in premium volume is automobile liability insurance, providing coverage against liability arising out of the use or ownership of an automobile. The most heterogeneous is product liability, providing coverage against liability arising out of the sale or installation of any kind of product, from soup to nuts, from cream-puffs to bottled gas and heavy machinery. And among the newer coverages are some for professional liability, such as accountants' and lawyers' liability. Formerly, the most important liability line had to do with the liability of an employer for injuries to his employees, but such is covered almost universally today under workmen's compensation insurance, with statutory benefits payable to insured workmen.

Historically, these coverages have been developing for the past 60 or 70 years, and new coverages come into being annually. At the outset, rates were determined on the basis of underwriting judgment by each individual company. The early experience was in very little detail and was very jealously guarded by the individual carriers.

At a recent gathering the casualty actuaries were regaled with an account of early meetings to which the chief executives brought volumes of experience which were protected by padlock. If any contribution relating to experience was necessary, the executive took the key from his watch chain, unlocked the volume, peeked inside as carefully as though he were playing a hand of poker, and having voiced his information in the most general and non-informative terms, relocked the padlock protecting his statistics. Since I do not date back that far, I cannot personally vouch for the accuracy of this account, but I am sure it represents at least the atmosphere of some of those early joint sessions.

Such secrecy was not the invariant rule, however, because even before 1900 there was some compiling of statistical information for the liability lines. In our office there is a handwritten volume of such a compilation dated 1896.

It was thus recognized, while casualty insurance was comparatively in its infancy, that this is a business in which the statistical results for a single company do not represent a sufficient volume in general to permit reliable interpretation for the development of classification rates. Pioneers who developed the first printed statistical plan more than thirty years ago were deep- thinking individuals, because the basis that they established at that time for the collection of liability statistics has been maintained down to the present day, although it is subjected at least every other year to the most careful scrutiny because of the several difficulties that it, like all other bases, involves.

While the period from 1915 to 1925 was probably the most productive of standardization and formularization in ratemaking procedures up to our present post-war era, it remained for the Supreme Court of the United States to inject the most potent dose of adrenalin yet given to the blood stream of the actuarial profession. In 1944 the Supreme Court handed down its decision in the Southeastern Underwriters case, familiarly known as the S.E.U.A. decision, ruling that insurance is commerce and subject to federal jurisdiction under the interestate commerce clause of the constitution, and reversing 75 years of precedent placing it under state supervision. The Congress at once passed a law returning jurisdiction to the individual states with certain reservations. That law and the state legislation subsequently passed reflects the peculiar necessity in the insurance business for the carriers to pool their statistics for ratemaking purposes, and in such procedures they are accordingly given due protection against the anti-trust laws of this country.

With the passage of the flood of rate regulatory legislation in the various states during the years following the S.E.U.A. decision, the industry has been faced with the need for a more scientific justification of its ratemaking procedures. In the old days, such processes as the interpretation of the reliability of insurance statistics were incorporated within the operation of underwriting judgment. Anyone who is familiar with actuarial work in the casualty lines speaks with a deep-felt deference of the underwriting judgment as evidence in the procedures and results produced by the company executives in that period

when the business was being developed, when there were no loss statistics available which would have met the criteria of reliability as we now utilize them, and when the very existence of the carrier in the open competitive market depended on the acuteness of the company's underwriters. Some of the old rule-of-thumb formulas are only now receiveing an overdue interment, but many of them have been substantiated in later years by learned mathematical papers.

The trend toward specific formularization of such underwriting determinations has developed rapidly through the past 20 or 30 years, largely as a result of the establishment of workmen's compensation as a compulsory line of insurance and consequently for the most part subject to rate regulation. The advent of rate regulation for the other lines, however, has greatly accelerated the same process for such lines and the industry finds itself faced today with the necessity of putting a check upon over-precipitancy in the development of so-called permanent ratemaking procedures.

A manual rate is divisible into three principal elements, a provision for expenses, a provision for losses payable under the terms of the insurance contract, and a provision for profit and contingencies.

Expense data are maintained for the main subdivisions of the casulty insurance business on a countrywide basis in accordance with an insurance expense exhibit prescribed by the National Association of Insurance Commissioners. Within the past year uniform classifications of accounts have also been prescribed by the Commissioners in order to produce comparable expense data for all carriers. Revisions of the basic expense provisions, which are customarily expressed as a percentage of the final rate, are determined from a review of the countrywide data so compiled. Modification of the basic provisions to reflect necessary differentiations by classification or to reflect size of risk discounts have been ruled to be supportable by special studies rather than by permanent periodic compilations.

The chief problems to the actuary are presented in the analysis of loss statistics. When we speak of losses in the insurance business, it must be born in mind that we are not talking about a loss that is represented in a profit and loss statement, but rather about the amount paid or incurred by a carrier under the terms of the insurance contract. When we speak to the profit and loss statement we refer to an underwriting gain or loss.

The basis established long ago and still used almost universally for the compilation of loss statistics on liability lines is known as the policy year basis and involves simply the combining of all statistical information for a given group of policies, for example, the policies issued with an effective date in a particular year. The other basis commonly used in the fire and casualty business is the calendar year basis which involves fundamentally the combining of experience as entered in the books of the carrier during a given calendar or fiscal period. This latter cash-in-and-cash-out approach is satisfactory for a line on which comparatively little litigation is involved in the settlement of losses, but has not proved satisfactory for the liability lines because of the fact that losses during a given calendar year may

reflect the ultimate settlement of accident cases originating several years previously, and such settlements bear no relationship, of course, to the premiums arising during that calendar period.

Manual rates are expressed in terms of units of exposure. For example, automobile rates are for the most part applicable per automobile, manufacturers' and contractors' liability rates per $100 of payroll, product liability rates per $1,000 of sales, etc. These rates vary according to the type of operation of the insured and in the liability manuals there are many hundreds of such variations in the rates. Since each of these variations requires support before state supervisory officials, it is necessary to maintain loss statistics in virtually all of that classification detail. This very great refinement of the manual rate structure is largely responsible for the necessity on the part of the carriers to combine their statistics for ratemaking purposes. The statistics of even one carrier in the aggregate may be so sparce that the professional statistician would be loath to draw very definite conclusions from them; when refined in this classification detail, it frequently develops that the data for all carriers combined on a countrywide basis is insufficient to be more than partially reliable.

For our interpretation of such statistics, certain ratios are commonly calculated, of which four are particularly important:

1. The pure premium is the loss cost per unit of exposure, obtained by dividing losses by the number of units of exposure.

2. The loss ratio is the ratio of losses to premiums, indicating the proportion of the premium income necessary during the experience period for the satisfaction of losses under the insurance contracts.

3. The average loss cost is obtained by dividing the amount of losses by the number of losses.

4. The claim frequency is the ratio of the number of claims to the exposure expressed in terms of a convenient unit, which may be the same as the actual unit of exposure or may be equal to as much as 100,000 actual units of exposure.

Since the product of the average claim cost and the claim frequency, with due regard to the exposure unit used, is equal to the pure premium, this relationship is frequently used for the analysis of pure premium indications.

Statistics are reported by the companies to a statistical agency of the state departments, in accordance with uniform instructions and definitions and under specific classification and territory codes. There are currently three such agencies for the liability lines, two of which utilize the same statistical plan, and statistics under the two existing plans are combinable for the major portion of the business. The calls for experience are in most states subject to approval by the supervisory authorities, and the detailed combined statistics for the companies reporting to each agency are compiled and submitted to the officials by that agency.

Manual rates are determined by the rating organizations and also by companies filing independently and not affiliated with a rating organization. These manual rates, representing classification averages for all risks, are further modified when applied to the larger risks to

reflect individual risk differences as evidenced in physical characteristics (schedule rating) or by the risk's own experience (experience rating, either prospective — predicting from past experience, or retrospective — adjusting in accordance with current experience).

The principal problem, both in manual-rate determination and in the development of rating plans, is the question of the reliability of the experience. Insurance has its foundation, of course, in the principle of distributing the cost of a serious fortuitous loss among a number of risks exposed to the same or similar hazards. Common sense indicates that averages drawn from a large volume of insured experience are more reliable than corresponding averages drawn from a small volume, and common sense is supported in that deduction by mathematical demonstration, having given expression thus to the mathematical principle known as the Law of Large Numbers. The chance fluctuations that disturb the reliability of insurance statistics may affect either the frequency or the severity of losses, or both. Common sense says the loss frequency is more consistent and consequently more reliable than the loss severity, and common sense is supported by statistics. It has already been noted that the pure premium, or loss cost per unit of exposure, can be analyzed in its two component parts, the frequency and the average loss cost or severity, and such an analysis may have an important bearing upon the reliability of the data.

Before delving more deeply into this problem, let us once again review our objective, which is fundamentally to predict what the experience will be from what it has been. In this process due consideration must be given to current economic factors not affecting the developed experience, and this point will be discussed further. But there are other reservations and considerations. Even though the experience should exhibit sharp fluctuations from year to year, which may well happen with a sparse volume, it would not be in accord with good business sense to reflect such sharp fluctuations in the rate structure. In the interpretation of the statistics, therefore, a proper compromise must be effected between the stability of the rate structure and its responsiveness to the current statistical indications. For example, a long period of experience for review enhances stability in the results, a short period responsiveness. Though projection beyond any available results of insured experience may seem in order, it is only infrequently practicable, because of the hesitancy of public officials to give their approval to such projected rate structure.

This matter of establishing a compromise between stability and responsiveness in the rate structure necessitates the introduction of concepts which take us outside of the customary methods of classical statistical theory. In accordance with procedures that will be reviewed later, assumptions are made which lead to the establishment of criteria of complete reliability. Where such complete reliability cannot be accorded, question arises with regard to the manner in which the statistical indications will be reflected in the rate structure. Statistical theory in that case can describe the experience indication, which we may consider as a sample mean, in terms of the probability of its deviating by a cer-

tain amount from the mean of the hypothetical infinite population from which that sample is drawn. Any such infinite population mean, however, is predicated upon the data in the limited sample under consideration and consequently to attempt to estimate a true value from these facts alone involves us in a game of "ring around the rosy," since under the usual methods our best estimate in this instance is the sample mean itself which we know is comparatively unreliable, and all of our hypotheses revolve about the data in that limited sample. Bearing in mind our ultimate objective of producing a rate structure which is reasonably stable as well as reasonably responsive to statistical indications, the actuary has resolved this dilemma by establishing a standard rate structure with which the indications of the experience are averaged in accordance with mathematically determined credence factors.

The standard of reference, when such credence factors are less than 100%, is the rate structure assumed to be correct in the absence of any experience indications entitled to credence. Usually, this is assumed as the schedule of rates currently in effect adjusted to reproduce the required rate level, although on occasion the indications of the countrywide experience have been assumed to be basic, and recently a schedule between the existing schedule and that indicatd by the countrywide experience has been utilized. The latter procedure has the advantage of producing revision of relativity among classifications even though the local experience receives no credibility and would be favored more frequently did it not involve extreme complications in the calcuation of the thousands of rates that may be in use for just one coverage in one manual.

In practise, criteria are established for complete reliability based upon specific assumptions of mathematical probability, and lesser degrees of credence are calculated ordinarily by a formula based on the square-root rule of observation weights. Customarily, for manual-rate determination such criteria are established in terms of the number of claims, with the assumption of a specified probability of specified percentage deviations of claim frequencies from a most probable value. For given criteria when applied in the interpretation of data affected by loss severity, such as pure premiums, the corresponding probability assumptions would be less rigid than when applied to loss frequencies alone, but the validity of the practical result of the introduction of consistency into the interpretation of the statistics is untouched, and that element of consistency is the most important function of the use of credibility, as the reliability factor is commonly termed. Such consistency in the utilization of the statistical data is of extreme importance in eliminating the possibility of unfair discrimination (1) among states in establishing statewide rate levels, (2) among territories in distributing the effect of a statewide rate level change, and (3) among classifications in distributing the effect of a territorial rate level change.

For a thorough-going technical discussion of this and other problems of the casualty actuary in their relationship to classical statistical theory, I refer you to a paper in Volumes XXIX, XXX and XXXII of the Casualty Actuarial Society Proceedings by Mr. Arthur Bailey, who is one of the leading mathematical students in our actuarial ranks.

It should not be considered that the actuaries think they have reached an ultimate solution of credibility problems. Investigations are continuously under way in this intriguing field.

Reference has been made to the violent effect fluctuations in loss severity may have upon the insured experience. This effect is curtailed in part by elimination from that experience of losses beyond certain minimum limits per claim or per accident. The statistical averages that are used, therefore, in the ratemaking procedure are based upon truncated experience which is far more consistent basically than the total experience, that is, producing far less violent chance fluctuations.

In the experience rating of individual risks, because of the smaller volumes of experience involved, the curtailment of the effect of a single claim is more important. A rule-of-thumb often used is the limitation of the effect of a single loss upon the final modification to a specified percentage of the manual rate. In several plans the credibility applied to large losses is less than the credibility applied to small losses, on the theory that the smaller frequency of the large losses dictates such treatment. One interesting aspect of this procedure is the result that the average loss thus posited as the most probable is not an arithmetic mean but rather an average determined by applying to the individual losses weights decreasing as the size of the loss increases. In a less obvious fashion, the same principle applies throughout the handling of the liability lines. It may be noted that the credibility in experience rating is usually based upon the manual premium and determined by a hyperbolic curve, the parameters being dependent upon specific underwriting assumptions for given risk sizes.

Some mention has been made of statistics extraneous to the insured experience. Such external statistics and economic data are frequently involved in support of rate proposals, but this element of economic developments occurring subsequent to the period of the insured experience under review, with an effect upon the anticipated insurance results which is qualitatively unquestionable but which is quantitatively intangible, is largely responsible for the emphasis in the insurance industry against the establishment of a rigid and semi-permanent formula for the determination of manual rates. The easy solution is to develop such a formula, but it is not a solution which can be guaranteed to produce right rates for the public or to maintain the solvency of the carriers, both matters of the utmost concern to the insuring public. With rate regulation now effecive in most of the states, procedures are customarily developed nationally so that there may be no question of unfair discrimination among the respective states. But actuarial clairvoyance has not yet reached the point where we can dispense with flexibility in the establishment of these countrywide formulas from year to year, and it is unlikely that such powers of prediction will be attained in the forseeable future. The actuary in effect stands midway between the underwriter and the statistician, in the general meaning of the latter term, and must partake of the characteristics of both, blending underwriting judgment and the utilization of statistical techniques to produce a result that is supportable, that can be simply explained and that makes sense.

Statistical Problems and Methods of Pre-paid Blue Cross and Blue Shield Hospital and Medical Plans

by

Mark Kormes, Consulting Actuary, New York City

1. Introduction

Prepaid hospital and medical care insurance is relatively new in this country. The fundamental difference between Blue Cross and Blue Shield plans which operate now over the entire United States* and eight (8) provinces of Canada and the coverage afforded by insurance companies under their hospitalization, surgical and medical policies is that these plans are sponsored by the hospitals and physicians themselves and make payments directly to hospitals and to the medical profession rather than indemnify the patient in accordance with some schedule of benefits. There exists a contractual relation between the hospitals and the Blue Cross on the one hand, and between the medical profession and the Blue Shield plan on the other.

While attempts have been made by some plans to grant full hospital cost coverage for as many as 120 or 150 days, the extent of the coverage is, at present, more or less limited and subject in some cases to coinsurance on the part of the subscriber. The benefits, which apply primarily to semi-private accommodations, vary from plan to plan. In general the pattern is to provide full coverage for a certain number of days and partial coverage thereafter up to a specified maximum number of days. Some plans provide for a monetary limit as respects the room and board charges and the balance, if any, is payable by the subscriber. Monetary limits are also frequently provided for maternity cases. Certain services such as ambulance, admission for diagnostic purposes only, blood plasma, etc. are excluded to a varying degree. There are also provided waiting periods for maternity and pre-existing conditions. These various limitations have proven necessary underwriting precautions in order to prevent adverse selection and to maintain the subscription price at the lowest possible level.

Surgical and medical benefits are payable in accordance with schedules of fees, and are also subject to certain restrictions dictated by sound underwriting principles. Of fundamental importance, however, is the division by many Blue Shield Plans of the subscribers into classes in accordance with their income. The low income subscriber enjoys the benefits of the Plan without being subjected to any additional charges on the part of the physician or surgeon. In the higher income class additional charges may be levied by the attending physician or surgeon. Many plans provide for certain ancillary services such as

*Except Nevada, Parts of Virginia, West Virginia and Georgia

anasthesia, X-rays, medical examination and treatment and other such services.

In closing these remarks concerning the scope of coverage I would here like to suggest that it would be of interest to prepare a chart of comparative index numbers for the benefit provisions of the various plans.

I wish to express my appreciation to the Blue Cross and Blue Shield Commission, to the Massachusetts Hospital Service, Inc. and Massachusetts Medical Service for their kind permission to utilize the information and statistical results cited in this paper.

2. General Nature of Blue Cross-Blue Shield Statistics

In the initial stages little attention was paid to statistics and, with more or less arbitrary rates of subscription, it was thought sufficient to maintain the records of income and outgo on a cash basis. With the increase of business volume, the supervision exercised by the various State Insurance Departments, the changes in hospital costs and other economic factors, the need for extensive statistical information has arisen and has to be met to a greater or lesser extent by the various Blue Cross and Blue Shield organizations.

The statistical data prepared and collected may be roughly divided into two classes:

(a) Exposure and Income Statistics

(b) Claim Statistics

The following outline is given on the basis of the requirements of a particular organization but which, mutatis mutandis, will apply to most other Blue Cross-Blue Shield organizations. Certain phases are merely proposals for the future and, though they may be in actual operation in some plans, the majority of the plans are not in a position to produce all of the desired information under their existing procedures.

3. Exposure and Income Statistics

The coverage may be provided on a group basis or to direct subscribers. It may apply to the individual alone, husband and wife, or family. It is obvious, therefore, that all statistical records must be maintained to permit a separation by type of certificate. The information which must be available because of Insurance Department requirements is the number of certificates in each category. From the point of view, however, of information which may be needed for underwriting purposes that is to determine the extent and reasons for the variation in costs between the various types of certificates certain additional information is required. It is desirable to know the actual number of participants covered under the family contract. For each subscriber again it is important to know the sex, age, marital status and the effective date of membership, if certain vital statistics are to be accumulated which will permit a study of the influence of these factors on the rates of morbidity and cost of coverage.

It appears, therefore, that it would be desirable to have an exposure record for each person covered, which would show in addition to the type of coverage and type of certificate, identification, also the sex, year of birth, and marital status. Where operations cover an entire

state, it might be also desirable to show the residence location. At the time when the application for coverage is made such information could be easily obtained and recorded on punched cards which are used almost universally.

The term exposure as use in this connection is a two dimensional concept depending upon the number of units as well as time exposed. The time may be measured either in calendar months or years. Such a concept of exposure is essential for a proper determination of claim frequency during a specified period of time, especially in view of the numerous exits from and entries to the various classifications of coverage.

In actual practice, however, the exposure information is shown on the premium card which is also used for billing purposes. This requires not only the showing of the Blue Cross and Blue Shield premiums but also the name of the subscriber to whom the certificate is issued, the group identification number and in some cases the social security number of payroll identification number. In the case of direct subscribers the address is requied to expedite the billing by machine operations. In addition, space must be provided for recording the date and nature of changes such as cancellations, transfers, etc. The demands of the statistician, under these circumstances, become like the voice in the wilderness and he must be satisfied with such crumbs as can be fitted in after the accounting and billing needs are taken care of.

The premium billing cards serve not only to prepare the periodic billings (monthly, quarterly etc.) but also, together with adjustments for changes, for the computation of the unearned premium reserves and thus the preparation of periodic financial statements required either by the supervisory authorities or the management. They also yield a great deal of exposure and earned premium information be it by type of certificate and class of subscribers for all risks combined or for individual groups. Master-cards prepared for each individual billing operation reduce the volume required for the subsequent operations and the use of modern equipment such as the electronic computers permit a very rapid utilization of most up to date information. The use of a single card for each certificate makes it difficult, however, to obtain such information as the number of persons actually insured and the segregation by sex and age of the individuals covered.

It is hoped that the efforts to secure more complete exposure information will not be suppressed by the excuse of its being immaterial because of the social nature of the coverage and the need for extreme economy of operation. The cost of obtaining this information spread over a period of time is insignificant and the knowledge of the various factors entering into cost of benefits will not only provide information of statistical interest but contribute considerably to the underwriting wisdom in the preparation of certificates for new coverages and determining proper and fair rates for same.

4. Claim Statistics — Methods and Reserves

The information available as respects losses is much more complete than that obtainable for exposures. Here again one punched card

serves the dual purpose, namely, to pay the hospital (Blue Cross) or physician (Blue Shield) and, at the same time, to provide the required statistical information. In this manner there is effected not only a very material economy of operations but also accuracy and completeness of the statistical data is assured.

Because of the variety of loss analyses and statistical problems connected therewith, I am showing in Exhibits I and II the information punched on the Massachusetts Blue Cross and Blue Shield payment cards respectively. The description of the procedure given in the following paragraphs will explain the utilization of these cards not only as respects payment data but also information on pending claims and unreported cases.

When a subscriber enters a hospital the hospital prepares and submits to the Blue Cross an admission report. This report (showing the certificate number) is checked against the subscriber record maintained in numerical order to determine the existence of coverage and to enter on the report such basic information as may be required and as is available. The admission reports are then forwarded to the Claim Department where a claim number is assigned and a punched card prepared showing information in columns 1 to 37 (See exhibit I) except that no information is punched in columns 20-21.

While, in theory, admission reports should be received very promptly, in actual practice they are delayed sometimes for many months. The admission cards permit, therefore, an analysis of the distribution by month of admission. The pattern, aside from seasonal variations, is fairly consistent and shows that the reports during a given month consist of 35% to 50% of admissions during that month, the balance being for prior months. These statistics are carefully compiled from month to month and serve as a basis of the estimate of the number of claims incurred but unreported. For the latest month the actual reported cases are assumed to be such a percentage of the ultimate number as is indicated by several of the preceding months. Thus if the percentage indicated is 75% and there are 14,509 reports the first estimate of the ultimate number is 19,333. This number is adjusted at the end of the following month when additional reports are received on the basis of the percentage indicated for reports at the end of two months. Thus, for example, if the number reported at the end of two months is 18,700 and the percentage indicated by prior months is 97.5%, the revised ultimate number is 19,179 claims. The experience developed over a considerable period of time demonstrates that at the end of six (6) months the reports are 99.9 percent of the ultimate number and that the above method of prognostication produces reasonably accurate results.

When the subscriber is discharged, the hospital submits a statement of charges and this is processed by the claim examiners who authorize payment. A payment card is punched and the corresponding admission card is removed from the pending file by means of the comparing punch machine. The payment information is duplicated from the payment card onto the admission card and the totals balanced by tabulation of the two sets of cards. The payment cards are

then sorted by hospital code number and a listed payment statement prepared for each hospital. The admission cards become statistical cards for paid claims analyses. The admission cards which remain constitute the outstanding claim file. From 67 to 76 percent of these reported and pending claims are for claims incurred during the current month and the balance for claims incurred in prior months. The bulk of the pending claims is for the latest six (6) months but there are scattered claims dating back as many as twenty-four (24) months.

The number of pending reported claims as well as the number of incurred but unreported claims is used to determine the loss reserves. Average claim values computed on basis of past experience for each of these two classes is multiplied by the number of claims and the reserves determined in that manner have proved to be remarkably accurate and satisfactory.

In the case of the Blue Shield the procedure is somewhat different although the principles are exactly the same. There the attending surgeon or physician submits his report and bill upon rendering a specific service. Such services are processed in the same manner as the admissions except that the payments are made as promptly as possible so that the number of reported claims outstanding is relatively small. The computation of reserves is made on the basis of the number of services. The medical profession is difficult to control and the lag between the occurrence of a claim and the reporting of the service is considerably greater than in the case of the Blue Cross. This can be readily seen if we observe that in the case of the Blue Shield the reserve for losses incurred but unreported is between 60 and 70 percent of the total loss reserve, while in the case of the Blue Cross such reserve constitutes only 12 to 17 percent of the total.

5. Statistical Studies

The statistical studies which are conducted or which could be made from the available data are many in number and I shall content myself to merely indicate the scope and the purpose of the most frequent and important analyses.

The statistical analyses can be divided into broad groups as follows:

(a) Financial reports and Insurance Department requirements
(b) Hospital Statistics
(c) Current internal data
(d) Rate-making statistics
(e) Special studies

In the following sections I shall outline briefly the nature of the information developed for each of the above groups.

6. Financial Reports and Department Requirements

In this category falls the determination of the earned premiums and loss reserves. The financial statements be they the Annual Reports to the Insurance Department or intermediate reports (monthly, quarterly or semi-annual) to the Board of Directors require the computation of two important liability items, namely the unearned premium reserves and the loss reserves. I have already briefly indicated how this information is developed. In addition the analysis of under-

writing results is obtained for a calendar year or month on a rather peculiar basis. The earned premiums at the end of the period are obtained by adding to the unearned premium reserve at the beginning of the period the premium written during the period and deducting the unearned reserves at the end of the period. Similarly losses incurred are obtained by adding to the payments during the period the difference between the loss reserves at the end of the period and at the beginning of the period. While the results obtained in this manner may be misleading for a given calendar month, they give fairly reliable indications over a period of six or more months.

In addition, the annual statement (and in some cases this is done on a monthly basis) requires an analysis of the changes in the number of certificates. This means the showing of the number of certificates by class in force at the beginning of the period, the number of new certificates, cancellations, reinstatements and transfers during the period and, finally, the number of certificates in force at the end of the period. Without adequate exposure records this task is very difficult and the results are not reliable.

7. *Hospital Statistics*

One of the most difficult problems which faces the Blue Cross organizations is the method of reimbursement of hospital services. It would be very simple indeed if the charges made by the hospitals were a true reflection of the value of services rendered. Anyone who is familiar with this subject knows that there is a very substantial variation between hospital charges in the same community for like services. be it as respects room and board or other services. The Blue Cross has a moral obligation to its subscribers to make certain that its payments for services to hospitals be kept on a reasonable basis. It cannot, in all instances, accept actual hospital charges as a measure of the value of services rendered because such charges may reflect the results of inefficient management, loadings for charity patients, research and teaching programs, and, in the case of private hospitals, undue profits.

Some Blue Cross organizations provide for full semi-private coverage as respects both room and board and ancillary services. Others allow a certain daily maximum amount for room and board and cover the ancillary payments in full for a specific period of time. In certain communities it has been possible to arrive at an understanding with the hospitals to base the Blue Cross payments on the results of cost studies and a formula adjusting such results for certain economic changes or special conditions in individual cases. In other organizations where ancillary services are covered in full, frequent studies of the ancillary charges are made by hospitals and on the basis of such studies certain average daily payments are negotiated with the hospitals from time to time.

Such studies of ancillary charges require not only an analysis of these charges by kind of service rendered but also the tabulation of the number of days for which the various charges have accrued in order to arrive at average daily charges which form the basis of negotiations.

The difference in hospital charges per diem depends, however, not only on the charges which the hospital makes but also on the distribution by types of cases which it services, and their average durations. Short stay surgical cases produce high average daily charge but a preponderance of long stay medical cases tends to reduce the average daily charges. It has been suggested to use a sliding scale of payments depending on the duration of each case. Such a method has its merits and is successfully used by certain organizations.

Considerable efforts are being made to institute cost studies for the determination of equitable payments and it is hoped that such efforts will be ultimately crowned with success and bring about the introduction of uniform cost accounting methods into the field of hospital management.

8. Current Internal Data

Certain information which indicates the trends of loss conditions is prepared on a monthly basis. Into this category fall the monthly loss ratios (incurred losses to earned premiums), the frequency of admissions or services reported, the average cost and the aveage duration of claims paid during the month. Such information is usually prepared to show the comparative results of previous months and may take the form of a chart or diagram. The importance of indicating on the hospital claim card whether or not the subscriber is also insured under the Blue Shield can be readily seen from the comparison of claim incidence shown below:

	Hospital Claims per 1,000 Contract Years			
Type of Certificate	Surgical	Medical	Maternity	Total
Blue Cross Only	170.1	99.8	40.4	310.3
Blue Cross & Surgical Care	230.5	92.9	52.8	376.2
Blue Cross & Surgical and Medical Care	239.5	119.1	49.0	407.6

The above experience demonstrates clearly the effect of the adverse selection in that the subscribers with greater coverage are more apt to utilize hospitalization than those with limited coverage.

9. Rate-Making

The approach to rate-making in this type of insurance is fundamentally the same as in other casualty lines. It takes into consideration the claim frequency and the average claim cost. I do not wish to repeat what has already been published on this subject. There are the excellent papers by Hunter and Thompson[1] and by Miller[2] in the Transactions of the Actuarial Society of America as well as by Miller[3] in the Journal of the American Statistical Association. There are, however, certain elements which merit discussion.

It is desirable in the field of Blue Cross and Blue Shield insurance to maintain the rate level fairly constant. With changing claim incidence and hospital costs this can be achieved only by adjusting the level of benefits and by providing in addition to a basic certificate other certificates with higher benefits for a higher price. In all such calculations I have found that the distribution by duration constitutes a most powerful tool.

Mr. Walter Bjorn has developed a series of formulae and commutation tables* for the calculation of rates which are based on such duration distributions for various groups of subscribers separately for males and females. This method, while sound in theory, would require quite laborious annual analyses by duration for each sex and class of subscribers because it combines frequency with duration.

The remarkable fact, however, about the duration distribution is that it can be used almost in the same manner as a mortality table or an accident distribution table. This may be seen from the comparisons shown in Tables I and II. Table I shows the percentage that the number of cases lasting ten days or less, twenty one days or less and 30 days or less bears to the total number of cases for various Blue Cross organizations:

TABLE I

Comparison of Hospitalization Durations[4]

Duration	Percent of Total Number of Cases					
	New York	Mass.	St. Louis	Richmond	Toronto	Portland, Ore.
up to	1940-41	1947-48	1947	1947	1947	1947
10 days	63.8%	71.3%	75.7%	80.0%	75.4%	83.5%
21 days	92.4	94.4	94.4	95.4	92.9	99.3
30 days	96.5	95.5	97.2	98.3	96.1	99.7

The slight variations for the various plans may be due mostly to the difference in benefit provision which either tend to reduce the number of cases with long durations, or increase the number of short stay claims.

In Table II we show the percentages of the number of sicknesses for certain durations to the total number of sicknesses under totally different benefit and living conditions:

TABLE II

Comparison Percent of Total Number of Cases of Sickness Duration[5]

Duration up to	Czecoslovak Social Security	U. S. Commercial Health Insurance	Costa Rica Social Security
10 days	41.4%	46.1%	59.3%
21-28 days	73.1	81.1	81.9

The similarity of the results is very striking and it offers a fertile field for research as it is quite possible that, if the elements which have an influence on restricting longer durations are determined and the adjustment is made in the experience, a universal duration distribution might be obtained.

The practical value of such table is its use for the evaluation of index numbers of various benefit provisions. Such index numbers permit one to translate the results based on the experience with one set of benefits to the level of any other set of benefits. The determination of pure premiums that is net costs for existing coverages can be readily obtained by classes of certificates and if it is desired

*See reference following text

to liberalize or to reduce the benefits the use of index numbers based on a duration distribution permits a speedy determination of the extent of the charges desired.

10. Special Studies

Under this category there falls a great multitude of investigations which are or could be prepared from the available basic material. As examples of the more important such studies I will cite the analyses by diagnosis for the Blue Cross, the analyses by kind of Service and surgical Procedure for the Blue Shield and studies of group experiency by size of group and by percentage of participation.

Some of the results of such analyses which might be of general interest. Thus the Massachusetts Blue Shield shows for the year 1948 the following results for the distribution by kind of service:

Kind of Service	% of Total Number of Services	% of Total Cost of Services
Surgical	44.3%	59.2%
Medical	14.3	12.9
Obstetrical	10.8	15.8
Anasthesia	21.0	8.1
X-rays	2.8	.9
After Care	1.6	1.0
Assistants	3.8	1.2
Endoscopy	1.4	.9
Total	100.0%	100.0%

The analysis of the above experience by surgical procedures shows the following results:

Surgical Procedure	% of Total Number of Cases	% of Total Cost of Cases
Tonsilectomy	17.3%	9.9%
Hysterectomy	4.1	9.9
Appendectomy	6.2	9.0
Cholecystectomy	1.9	4.9
Herniotmy	2.3	3.5
Uterine Flexious	1.6	3.1
Hemorrhoidectomy	2.9	2.9
All other	63.7	56.8
	100.0%	100.0%

11. Concluding Remarks

I have attempted in the preceding remarks to outline in rather broad strokes the general nature and scope of the statistical problems confronting Blue Cross and Blue Shield organizations.

If some statements appear to be rather elementary and too much space has been devoted to the basic data it is only because I belong to the school which has the motto "The best and most advanced statistical methods are of no value unless applied to correct and accurate basic information."

The fact that the statistics yield information by month of occur-

rence opens a wide field of research of time series and correlation. Thus, for example one could study a relationship between the time of the year and the incidence of certain diagnosis or the correlation between the frequency of admissions and number of applications for unemployment insurance. The Blue Cross and Blue Shield plans cover a substantial percentage of population and the statistical information which they develop are apt to be much more reliable than that obtained from other sources.

EXHIBIT I

MASSACHUSETTS HOSPITAL SERVICE, INC.

PAYMENT & STATISTICAL CARD (January 1, 1949)

Columns	Information
1	Type of Coverage (1. Semi-private Individual; 2. Semi-private Family; 3. Ward Individual; 4. Ward Family)
2-8	Certificate Number
9-19	Initial and Last Name of Patient (Payment Card Only)
(10-16)	Group Number (Admission or Statistical Card Only)
20-21	Number of Partial Coverage Days
22-23	Admission Month
24-25	Admission Day
26	Admission Year
27-28	Year of Birth
29	Sex (1. Male; 2. Female)
30	Dependent Status (1. Subscriber; 2. Spouse; 3. Child; 4. Other)
31	Type of Service (1. Medical; 2. Surgical; 3. Obstetrical; 4. Out-Patient)
32-34	Hospital Code Number
35	Payment Classification (Group, Non-group, etc.)
36	Month Report Received
37	Year Report Received
38-43	Claim Number
44-48	Total Amount Paid to Hospital
49	Payment Month
50	Payment Year
51-55	Diagnosis Code (International Morbidity Code)
56	Type of Hospital Accommodations Used (Private, Semi-Private, etc.)
57-59	Total Number of Days
60-62	Room & Board Charges*
63-65	Laboratory Charges*
66-68	Drugs & Medications Charges*
69-70	X-Ray Charges*
71-72	Operating & Delivery Room Charges*
73-74	Anesthesia Charges*
75-76	Baby Care Charges*
77-80	Patient Payment Amount*

*This information is shown in even dollars.

EXHIBIT II

MASSACHUSETTS MEDICAL SERVICE
PAYMENT & STATISTICAL CARD

Columns	Information
1	Type of coverage (Individual, Family, etc.)
2-8	Certificate Number
9-19	Name of Patient (Payment Card only)
(10-16)	Group Number (statistical card only)
20	Income Classification
21	Payment Classification (group, non-group, etc.)
22-26	Month, Day & Year of Admission
27-28	Year of Birth
29	Sex
30	Dependent Status
31-32	Kind of Service
33-34	Month and Year Report Received
35-40	Physicians Number
41-46	Claim Number
47-48	No. of Days
48-51	Medical Amount
52-54	Surgical Amount
55-57	Obstetrical Amount
58-59	Assisting Services Amount
60-61	After Care Amount
62-63	Anesthesia Amount
64-65	X-Ray Amount
66-68	Endoscopy Amount
69-71	Total Payment
72-73	Payment Date
74	Additional Service
75-79	Diagnosis Code
80	Claim Count

LITERATURE

1. "Hospital Service Insurance" by Arthur Hunter and Allen B. Thompson, Transactions of the Actuarial Society of America, Vol. XLIV, Part 1, No. 109, May 1943.
2. "Group Medical Expense Insurance" by Morton D. Miller, Transactions of the Actuarial Society of America, Vol. XLIX, pp 379, 1948.
3. "Statistical Problems in Developing Voluntary Medical Expense Insurance Plans" Journal of the American Statistical Association, Volume 43, Page 290 ff., June, 1948.
4. Taken from reference 1 as respects New York, from "Experience of Blue Cross Hospital Sevice Plans, 1947" compiled by the Blue Cross Commission and from the records of the Massachusetts Hospital Service, Inc.
5. "An Actuarial Report on the Costa Rican Social Security Fund" by Mark Kormes, International Labour Office, Montreal, 1945.

Discussion

by

Arthur L. Bailey, Chief Casualty Actuary, New York State Insurance Department

Mr. Carlson has given you a rather complete picture of statistical developments in Casualty Insurance. His picture was a general overall view of the business and its statistical problems. It would appear that it can be discussed only by describing, in somewhat more detail, one or more aspects of that picture.

Active statisticians in other fields, teachers of insurance in general, or teachers of statistical techniques, whether of insurance or not, should be especially interested in those philosophies of casualty insurance which serve to make its statistical procedures different from those of other fields. For those of us who are active in the statistics of casualty insurance, it is good to pause occasionally and to meditate on the reasons why we do things differently in our business. For these reasons I have chosen to enlarge on Mr. Carlson's presentation by dwelling on differences, particularly the differences in the philosophies or beliefs of casualty insurance statisticians and those in other fields. I will mention specifically three beliefs held by casualty people which have produced procedures, either peculiar to that field, or found only occasionally in other fields.

First, there is the belief of casualty underwriters that they are not devoid of knowledge before they have acquired any statistics. This belief is probably held by operating personnel in all businesses. When a new form of insurance is initiated or a new classification or territory established, there may be a considerable variety in the opinions of individual underwriters as to what the rate should be; but the consensus of opinion invariably produces a rate. This rate soon becomes embedded in the minds of the underwriters as the "right" rate. Later, when statistics as to the actual losses under the new coverage, classification or territory, finally are acquired, the problem is not "what should the rate have been?" but "How much should the existing rate be changed as a result of the facts observed?" In revisions of rates for regular coverages, classes and territories, this is always the question.

The statistical methods, developed by the mathematicians and available in the standard textbooks on statistical procedures, deal with the evaluation of the indications of a group of observations, but under the tacit or implicit assumption that no knowledge existed prior to the making of those particular observations. The credibility procedures, which Mr. Carlson has mentioned as used in the revisions of casualty rates, have been developed by casualty actuaries to give consistent weightings to additional knowledge in its combination with already existing knowledge.

A second belief of casualty actuaries is that they are in a continuing business. Also that a more or less wide spread of risk is being taken at any one time. The ratemaker in such an organization as the National Bureau of Casualty Underwriters, which Mr. Carlson represents, literally has thousands and thousands of rates to be revised at relatively frequent intervals. Being called upon to make a large number of estimates, the casualty statisticians can relinquish the condition, usually imposed by other statisticians, that each estimate be unbiased. In its place they may impose the less restrictive condition that a particular group of estimates be unbiased in the aggregate. This permits them to make a material reduction in the error variances below what could be obtained by applying the usually taught and presented methods of statistical estimation. It produces another type of credibility formula which appears to be unique to casualty insurance.

The third peculariarity that I want to mention is that casualty underwriters consider each insured to differ from all other insureds. For example, each automobile driver is assumed to have habits and eccentricities unlike any other; each fleet of trucks is assumed to travel routes and engage in operations which make its hazards different from all others, even those engaged in the same industry in the same territory. The propriety of this assumption has been verified in so many instances that the differences between risks has become a basic concept or axiom. Experience rating plans are used in almost all lines of casualty insurance to measure the peculiarities of individual risks.

Despite this uniqueness of the "inherent hazard" of different insureds, each and all of them are subject to the vagaries of chance and the random errors of classification and measurement common to all statistics. Statistical methods generally taught and published in textbooks deal with populations for which the entire variation is produced by the vagaries of chance or the random errors of measurement. Populations in casualty insurance, however, consist of individuals having a variation of expectations other than that due to these two items. Their inherent hazards must be assumed to differ even if it is impossible to postulate or to precisely measure the differences.

This dealing with heterogenous populations produces some very interesting results which most statisticians would sneer at as "impossible", but which are, nevertheless, wholey sound and justifiable. One of these is the "split" of losses in the experience rating plans of casualty insurance. The first N dollars of each loss is given a greater weight (that is, more credibility) than the amounts of any losses in excess of N dollars. The result of this separation and weighting is to produce a better estimate of the average loss than would be obtained by the use of the observed average. Although it is axiomatic to most statisticians that the observed mean of the sample is the best estimate of the mean of the parent population, this is only true in the case of homogenous populations and can be materially improved if the populations are heterogenous.

I personally entered the casualty insurance field from the com-

pletely unassociated field of statistical research in the banana business. The first year or so I spent proving to myself that all of the fancy acturial procedures of the casualty business were mathematically unsound. They are unsound-if one is bound to accept the restrictions implied or specifically placed on the development of the classical statistical methods. Later on I realized that the hard-shelled underwriters were recognizing certain facts of life neglected by the statistical theorists. Now I am convinced that casualty insurance statisticians are a step ahead of those in most fields. This is because there has been a truly epistemological review of the basic conditions of which their statistics are measurements. I can only urge a similar review be made by statisticians in other fields.

Discussion

By

W. Rulon Williamson, Senior Acturial Consultant
The Wyatt Company

Mr. Kormes' informative paper deals with one of three of the personal presumptive needs areas, which have been the subject of that missionary effort involved in being "our brother's keeper"—in connection with thrift, insurance and cooperative budgeting. The other two deal with job loss and the income loss involved, the first replacing part of that loss because of Old Age, disability or death, the second because of "just unemployment."

This medical care area has been particularly a no mans land of fear and fog, myth and frustration. Medical care involves cost of catastrophic, of serious and of trivial magnitude. The Blues, in the main, deal with serious situations—largely hospital and surgical costs. They are community in spirit, non-governmental, eminently practical.

The Institute of Life Insurance used, in its recent annual meeting, the slogan "Life Insurance An Open Book." Even in life insurance it has been possible within a decade for the National Government to charge about four times the necessary premium for its service men's life protection, suggesting that the book, though open, must have been in the next room, or at least behind the backs of the legislators. But in Medical Care, "the book" (to continue the imagery) is at least next door or perhaps in the next block.

These are a few suggestions in Mr. Kormes' paper that seem rather challenging.

1. Protection against adverse selection.
2. The list of vital cost factors.
3. The lags in reports from hospitals and physicians.
4. Days of duration of hospitalization.
5. Reducing per diem cost on ancillary charges.
6. Increasing hospital utilization when Blue Shield also in force.
7. The over-simplification of index numbers.

1. Protection against adverse selection. One of the most important items in dealing with such selection is how large the early artifically favorable personal experience bulks in the life history of protection. A Mutual Benefit *Life Insurance Experience* indicated that selection gains, while a large percentage in the early years, were negligable over life-time coverage. The goal in these coverages is also life-time protection. The measurement of favorable and adverse selection seems to me as important as any statistical problem in this protection and the exclusions that temporarily save money may not be worthwhile.
2. In addition to sex, age and marital condition, the whole history of group insurances suggests that (a) employment, (b) directness of claims supervision and (c) the sense of getting a bargain, a subsidy

or one's money's worth, are also important basic factors in costs.

3. The lags in reporting admissions, discharges, and medical services have been serious impediment to complete statistical orientation. Less rapid progression in the Federal income tax might, for instance, expedite doctors' reports.
4. *Duration of hospitalization by days* is a most important study. Thoroughly random sampling should be done with very clear-cut instructions to the compilers and tabulators. Such items as the prescription of 2 weeks or 3 weeks' hospitalization, or the absence of available home care are probably of major influence on some duration records. Early ambulation, limited nursing and physicans services were important war-time items. Provisions should be made for continuous study and very limited credence given to early indexes.
5. The reducing per diem cost, the reduction divided between reduced normal services with advancing convalescence and reduced ancillary services in the later days of stay can give smaller complete costs and larger per diem cost at the same time.
6. I have seen a comprehensive report in one location which proved to the local administrators that combined Blue Cross-Blue Shield benefits did not mean more utilization over just Blue Cross protection but that it might mean *earlier* utilization and subsequent reductions in the costs of unnecessary aggravation of illness through delay.
7. Such convenient labels as life expectancy, expected days of hospitalization and ratio of users to members in a year are essential, but sound ideas of the correct credence to assign to snap judgments in the early analyses and the instability of indexes themselves, must develop.

One of the greatest dangers inherent in the missionary spirit is its common disregard for thorough acturial and statistical analyses. One administrator, in objecting to certain annoying details of basic record-keeping said "It smacks of commercialism." I have run across that happy rationalization of ignorance in governmental nonchalance too.

A business dealing with over 35,000,000 persons must engage in thorough going fact finding. Perhaps 10 times the attention given to date would be about right. The magnitude of industrial research that has paid such dividends is rather overdue in these programs.

New Developments in Employee Disability Programs

Summary of Discussion by

Wilbur J. Cohen

Technical Adviser to the Commissioner for Social Security

A major defect of the social security program in the United States is its failure to protect workers and their families against the costs of medical care, and against the loss of income due to illness or accident resulting in either short- or long-continued inability to work. Except for certain governmental employees, railroad workers, and wage earners at the present time in three States who are covered by temporary disability insurance linked with unemployment insurance, workers generally have no adequate protection against non-work-connected temporary disability. Similarly, except for veterans and for select groups of workers who have permanent total disability protection under special retirement systems there is no income protection generally available to the working population against long-term disabilities which are not work connected. Private insurance to furnish substantial protection against income loss from illness or disability is beyond the means of most workers and personal savings are seldom sufficient to tide a family over a significant period of disability. Yet, each day about 2 million persons recently in the labor force are kept from working by a disability which has lasted less than 6 months, and nearly 3 million persons aged 14-64 who otherwise would be gainfully employed are afflicted with serious disabilities which have already continued for more than 6 months.

The most satisfactory solution to the total problem of insecurity is to include a coordinated program of protection against these costs and losses arising from sickness and accident within the framework of national social security legislation.

The problems involved in providing against the risk of income loss due to disability are basically the same as those involved in the risks already covered by the Federal social insurance system. The various public retirements systems, the programs of railroad workers, the veterans' program, workmen's compensation, the State cash sickness insurance programs and commercial insurance have provided valuable experience in the administration of disablity benefit programs. In addition, 10 years' experience with Federal old-age and survivors insurance has demonstrated that basic family protection for all workers through compulsory contributory social insurance is in harmony with the American way of life and that a firm and successful administrative foundation exists upon which to build the new benefit program.

Facilities of the Bureau of Old-Age and Survivors Insurance, including its wage records system and the field and area offices where retirement and death claims are processed could be readily adapted to the function

of administrating claims. Decided operating advantages would arise from this integration.

Coverage of employees could be made identical for old-age and survivors and disability insurance. Thus, employers could prepare a single wage report and make a single periodic contribution for the purposes of old age, survivors and disability insurance. One wage record system and one administration and field organization would serve all of these programs. Contributions could go into a single trust fund, thus providing greater flexibility in financing costs.

If old-age and survivors insurance and disability insurance were combined, the public also would be benifited in having one field office to which to go for filing claims and for general information.

Program, as well as administrative, integration could be achieved by expanding the old-age and survivors insurance system to include disability protection. Changes could be made in the old-age and survivors insurance law to "freeze" the insured status of a worker at the time he becomes entitled to extended disability benefits so that he will remain insured for old-age benefits if he lives to normal retirement age. In the same way his survivorship protection could be maintained throughout a period of extended disability in order that his dependents shall be fully protected in case he should die.

Protection against wage loss due to temporary or extended disability should be closely coordinated. With program and administrative integration, provision can be made to avoid gaps in protection against these two risks so that there would, in effect, be continuous and uninterrupted protection throughout the course of a long or permanent disablement. Furthermore, both temporary and extended disability insurance involve similar administrative arrangements regarding such areas as certification of disability, because of the close association of the two types of risks which are being insured against. Thus, these two programs are closely associated as to concept and administrative requirements, more so than to other types of social insurance protection.

The United States is the only country in which unemployment insurance has preceeded temporary disability insurance. As a result, the development of temporary disability insurance in this country has differed from that in other countries because it has been considerably influenced by the unemployment insurance pattern.

Elsewhere, temporary disability insurance has generally been related to permanent disability insurance and health insurance. The first compulsory sickness insurance law with broad coverage, enacted in Germany in 1883, provided both medical services and cash benefits related to wage loss. By 1900, 3 countries had adopted compulsory health insurance programs. A few more were added before 1914, including Great Britain. After the first World War, there was rapid expansion, particularly in the new countries. During the 1930's, a few South American countries added programs, and more did so in the 1940's. Since the end of World War II, the countries of Western Europe — England, France, Belgium, Sweden, Denmark, and the Netherlands — have enacted legislation to increase protection against risks of income loss

from disability, and to remove or reduce financial obstacles to medical care.

Legislative protction against the hazards of work-connected disabilities has been left to the independent State action. Not until 1948, 38 years after the first State law, did all States have workmen's compensation laws. In the field of unemployment insurance, however, the Federal Government encouraged States to enact unemployment insurance laws, without requiring any standards for the protection to be offered by those laws. As a consequence, although only 1 State had an unemployment insurance law prior to Congressional consideration of the Social Security Act, all States had laws within 2 years after passage of that act. Under both workmen's compensation and unemployment insurance there is very wide desparity in the protection given to workers in similar circumstances.

The trend in State disability insurance laws is towards slow spread of such programs and considerable inequality in the adequacy of protection. The first State law was enacted in 1942; by the end of 1949, 4 more State laws and 1 Federal law have been enacted. On the basis of workmen's compensation experience, it might be expected that all States would have disability insurance laws by 1980! I believe, however, that the actual trend will be somewhat more rapid.

We now have over 6½ years of benefit payment experience under the Rhode Island law and nearly 2½ years experience under the Railroad law. Both programs have demonstrated the successful operation of compulsory insurance programs.

Benefits under the railroad program during each of the first two years have averaged approximately one-half of one percent of payrolls. Administrative expenses of the railroad unemployment and sickness program were equivalent to 7.6 percent of benefit disbursements.

A new feature of the California law provides hospitalization benefits of $8 per day for a maximum of 12 days of hospitalization for persons covered under the State cash disability insurance program. In California employees are required to pay 1 per cent for disability insurance. The California program began with a reserve of $108,000,00 representing a part of the employee contribution to the State Unemployment Compensation Fund. During the first year of its operation its contribution income amounted to $51,500,000 while its benefit disbursements were only $17,700,000. During the second year the contribution income was $46.3 million and its disbursements for benefits $20,000,000. In spite of this experience, there was opposition to amendments of the benefit provisions of the law so that disbursements and contributions would be brought into better balance with one another. Blocked in this effort local labor groups in California looked for an alternative; the result was the plan of utilizing some of the excess income from the disability system for hospitalization benefits.

New York disability benefits law

This discussion of new developments in employee benefit programs would not be complete without a brief discussion of the New York law which becomes operative in 1950. The New York law is distinctive in many ways. While the law has the same objective as the disability insurance laws of Rhode Island, California, New Jersey, and Washington, the

over-all protection, however, appears to be considerably less satisfactory than that provided by the other laws.

One disadvantage of this law is the fact that a worker does not keep his protection as long after leaving covered employment as he would under the other temporary disability insurance laws. Even though he can acquire rights more quickly, and with less covered employment, the lack of continuity of protection, and of assurance of protection for a definite period, makes the worker less able to count on the fact that he has disability insurance. Another drawback is the extreme complexity and capriciousness of the provisions for determining eligibility. It will be very dificult for workers to exercise their rights and be fully aware of their responsibilities. Moreover, a worker's rights may be substantially changed by trivial occurrences — such as the acceptance of a brief odd job in noncovered employment. Because of the emphasis on a private-plan type of system, employers' liability even under the State Fund is not limited to a definite percentage of payrolls. Efforts to keep costs down may result in selective hiring practices. Moreover, employers will have a direct incentive to take advantage of the many technicalities in the law to have workers declared ineligible. In addition, the administrative expenses are expected to represent a much higher proportion of contributions than under the other disability insurance laws. The allowance for administering the State Insurance Fund is 25 percent of contributions; over-all administration and enforcement of the law is an additional expense, which is not limited in relation to contributions. In contrast, the other State disability insurance laws allow 5 or 6 percent of contribution income for administration, leaving about 95 percent for benefits in contrast to about 75 percent or less in New York.

The conditions for receipt of benefits depend upon the individual's employment status at the time his disability begins. If he has had 4 consecutive weeks of covered employment, and when the disability begins is either employed in covered employment or has been out of covered employment for not more than 4 consecutive weeks, with no noncovered employment in those 4 weeks, he qualifies for benefits for "disability during employment" for 13 weeks at 50 percent of his average weekly wage in the last 8 weeks of covered employment.

Workers who are not qualified for benefits for "disability during employment," because they have last worked in noncovered employment, or have been out of covered work for more than 4 weeks but for less than 26 weeks, may or may not qualify for benefits for "disability during unemployment." The conditions of eligibility depend on whether or not they have sufficient bass-period earnings to qualify for unemployment insurance—although coverage, benefit formula, and eligibility provisions are different under the two laws. The duration provisions are less liberal than those of the other temporary disability insurance laws and considerably less liberal than the New York unemployment insurance law. Disability benefits are payable for a maximum of 13 weeks in any 52 consecutive weeks, while unemployment insurance benefits are payable for 26 weeks during the 12 months beginning the first Monday in June.

Under the New York law, each employer who has at least four

workers on 30 days in a calendar year is required to provide insurance for his workers, either by purchasing an insurance policy from a private insurance carrier, by establishing a self-insurance fund, or by purchasing insurance from the State Insurance Fund. Although the choice is made by the employer and applies to all of his workers without any statutory requirement that they be consulted, the employer may deduct from the worker's wages one-half of 1 percent payroll tax up to 30 cents weekly. The additional costs, if any, must be paid by the employer. The costs to the employer will vary from establishment to establishment and from year to year.

As mentioned, the employer is free to choose how he will carry the insurance so long as the policy he purchases from a private insurance company meets the standards set up for the State Insurance Fund. Since insurance companies are free to accept or reject firms, it is to be expected that their policies will be concentrated among firms whose workers represent relatively good disability risks. and that they will reject firms where the disability rates might be expected to be high. The State fund has, of course, no right to reject anyone and may be expected, therefore, to get the poorer risks. While the State can compensate for this adverse selection by the rates it charges, such rate adjustment will give employers an incentive to keep workers from filing claims and to bar them from benefits by technicalities. It may also lead to increased discrimination in hiring against women,older workers, those with chronic diseases, and others who may be regarded as poorer-than-average health risks.

The State Insurance Fund, from which employers may purchase insurance to provide benefits to employed workers, is permitted to spend 25 percent of the contributions for administrative expenses. In addition, the expenses incurred by the State in the over-all administration and enforcement of the law, including payment of benefits to unemployed workers, are to be charged against all carriers, including the State Insurance Fund, in proportion to the share of total covered payroll covered by each carrier. There is no top limit on this charge. This combined allowance of more than 25 percent for administration is in decided contrast with the 5 or 6 per cent of contributions allowed under the other State temporary disability insurance laws.

It is not surprising that expenses of this system would be higher than of the others. The New York law is to be administrated by the Workmen's Compensation Board, but it seems that there will be few joint operations with the workmen's compensation law, since the coverage of both employers and employees, the contribution base, and the benefit formula are different under the two laws. Under the disability laws administered by the employment security agencies, with coverage, contributions base, and benefit formula the same, one status determination, one contribution and wage report from the employer, and one set of agency wage-record files, will serve both programs.

While employer coverage is similar to that under both the unemployment insurance and workmen's compensation laws, it is not identical. The workmen's compensation law covers employment in a long list of hazardous industries without regard to size of the establishment, and employers in other industries if they have four workers. The unem-

ployment insurance law covers employers, with certain types of work excluded if they have four employees on 15 days in a year. To be covered under the disability insurance law the employer must have four employees on 30 days; moreover, government employment and maritime services are excluded from disability insurance, although covered for unemployment insurance. Consequently, separate determinations of liability under the law will be needed, thus adding to employer and worker uncertainty, as well as to administrative expense.

Major Objections to Contracting Out in a Disability Insurance Program

The objective of a Sate disability benefit program should be to provide as many as possible of the workers in the State with adequate protection at the lowest possible cost, or with the most protection possible at a given cost. An exclusive State fund, with no provision for contracting out under private plans, is the only type of system which meets the stated objective.

When "contracting out" is permitted, a smaller portion of each premium dollar is available for benefits than under an exclusive State fund because more is needed for administrative expenses. Insurance company costs are higher than the State's, partly because they have additional expenses such as salesmen's commissions and advertising costs, as well as profits on investment. The portion of State collections used for administration is also increased because of the private plans.

Under a State-wide system, all contributions and the interest on invested reserves are permanently available for benefits and administrative costs. Any excess of current collections over current expenditures forms a reserve for future benefits or future reduction in contributions.

Another disadvantage of contracting out is that it inevitably results in selection of risks adverse to the State fund. The risk of disabling illness is not the same for all groups of workers, but is related to such factors as age, sex, income level and occupation. If the State contribution rate is properly adjusted to the cost of average risks, private plans cannot afford to provide the same benefits for the same rate, unless they cover the groups which represent better than average risks.

Any increase in required benefits, or decrease in contribution rates will cut down on the margin between benefit payments and collections, and thus reduce the profits from private plans. As a result, private plan interests will oppose any such changes in the law.

The private plan emphasis on favorable risks may encourage hiring practices which discriminate against workers who might be expected to be less favorable risks. These are the older workers, women, nonwhites, and those with a history of illness or chronic disease, who already face the most difficulty in getting jobs. A State system which included experience rating would also foster these discriminatory hiring practices.

Workers who change employers are automatically protected under an exclusive State system. To give them the same continuity of protection under contracting out adds statutory and administrative complexities, particularly if benefit amounts or duration are based upon past wages—as is the case under all existing laws.

Unemployed workers present even more problems. If protection

terminates with loss of work, the system leaves a substantial gap in protection. Yet it is difficult to develop and more difficult to administer a method for paying benefits to unemployed workers which does not throw an undue share of the cost upon the State fund.

None of these difficulties is academic or theoretical. Although California has only 3 years of experience with a program involving contracting out, and New Jersey less than 1, the information now available indicates that administrative costs are higher, less is returned in benefits, liberalization is opposed, adverse selection has resulted, and the State fund is carrying a heavy cost for unemployed workers.

Allowances for Dependents

One of the great weaknesses of the existing State and Federal programes is that they do not make provisions for paying benefits in relation to the number of dependents of the sick individual. All of the programs established by employers, or negotiated through collective bargaining, provide for flat amounts or amounts which are varied only in relation to the individual's wages. None of the plans provide for varying the amount of benefits in relation to the number of dependents.

I believe that benefits payable to a sick or disabled individual should be varied, both in relation to the individual's wages and to the number of his dependents. Cash sickness benefits are a form of social insurance. They are designed to meet both an individual's need and a social need. The payment of benefits to an individual in relation to the number of his dependents does not, in my opinion, change the character of the benefits from insurance to relief. Rather, it recognizes that individuals with dependents have a greater presumtive need which the insurance system should recognize as one of the facts of life. There are 12 States that provide dependents benefits under their workmens compensation laws when a worker is temporarily totally disabled due to industrial injury or sickness. There are also 11 States that provide dependents benefits under their unemployment insurance laws when a worker is temporarily unemployed.

I believe that dependents' benefits can be added to the program without creating difficult administrative problems. The payment of dependents benefits makes it possible to provide more adequate benefits to the individuals who need them without, in any way, distorting the financial soundness of the insurance plan or its administration.

In general, I believe the scale of benefits which we ought to try to provide is a weekly benefit to the single individual of about 50 percent of his previous wages with a minimum of about $8 a week and a maximum of about $30 a week. Additional allowances for dependents should be added to these amounts so that the individual with one dependent would receive about 60 or 65 percent of his wages; an individual with 2 dependents would receive around 65 or 70 percent, and an individual with 3 or more dependents would receive around 70 to 75 percent with an over-all maximum of about $42 or $45 a week.

Our present programs are a long way from meeting these objectives. The maximum payment payable under any of the 6 public plans already legislated is only $26 per week. As shown in the attached table this results in an average benefit of only about 43 per cent in Rhode Is-

land, a little more than 37 percent under the California State Plan, and about 35 percent under the New Jersey State Plan. I believe that as a goal we should try to make cash sickness benefits (including dependents benefits) average about 50 percent of average wages. We still have a long way to go to meet this goal.

Temporary Disability Insurance Benefits as Related to Weekly Wages

State	Average weekly wages, Jan-Mar. 1949 1*	Average weekly disability benefit Amount	Period	Rates to Wages	Statutory weekly maximum benefit	Average weekly benefit amount unemployment insurance Sept., 1949
California, State plan	$61.03	$22.80	Jan.-Oct. 1949	37.4%	$25	$22.83
New Jersey employed, State plan	59.66	20.54	Jan.-Nov. 1949	35.1%	22	20.89
New Jersey unemployed	59.66	20.54	Jan.-Nov. 1949	34.4%	22	20.89
Rhode Island	50.65	21.67	April-Oct. 1949	42.8%	25	23.02
Railroad	60.00 4*	3* 21.92	July-Sept. 1949	36.5%	25	3* 17.29

1* Average wages of all workers covered by unemployment insurance; average wage for workers covered by State disability plan not available, but probably somewhat lower.

2* Estimated for complete weeks of sickness.

3* Computed in terms of full weeks of sickness or unemployment; benefits actually paid for days of sickness or unemployment in excess of 4 in 14 day registration period.

4* For March 1949, Source: *Monthly Labor Review,*

Prepared in Bureau of Employment Security, Department of Labor, on basis of State reports and data in Railroad Retirement Board *Monthly Review.*

Medical Certification of Disability

Medical certification of inability to perform customary or most recent work is an essential part of any claim for temporary disability insurance. Whether disability should be certified by a physician engaged by the claimant ("attending physician") or by a physician engaged by the agency ("agency physician") may be controversial, but cer-

tification by a licensed physician as such is indispensable. A statement signed only by the patient or a member of his family cannot be considered adequate.

All existing laws require that the first claim for benefits be certified to by a physician. 1* In both California and Rhode Island, as well as under the railroad system, the practice of using an "attending" rather than an "agency" physician as the certifying physician has proved to be satisfactory. These certifications are reviewed in Rhode Island by the agency's medical director, and in California and the railroad system by the claims examiner under medical supervision. Experience has indicated that all certifications need not be reviewed by agency physicians; as experience accumulates, an increasingly large proportion of certifications can be reviewed equally well by trained and competent lay claims examiners, with difficult and unusual and questionable cases continuing to be reviewed by the medical director or one of his medical assistants.

In California, a full-time medical director is responsible for the medical aspects of the program; a part-time medical director is employed by the Rhode Island agency, while part-time medical consultants are attached to each regional office under the railroad system. The use of a full-time director appears advantageous, since being independent of private practice, he can provide more adequate service to the agency. In addition, with such specialized experience, he will gain proficency in relating physical and mental conditions to duration of inability to perform various types of work.

The State agency may profit from the collaboration of the State health department in setting up arrangements for medical review of certifications, as well as with regard to other medical aspects of the program, such as the follow-up cases, or giving laboratory services when needed to make a determination of disability.

In order to verify questionable claims and certifications, to check on long duration disabilities, or to answer claimants' complaints, the agency may require medical re-examination of the claimant. In Rhode Island, such re-examinations are given by part-time agency physicians; the California and railroad agencies use panels of physicians in private practice. In California, claimants are referred to one of these physicians, called an "independent medical examiner;" the physician is sent a carbon copy of the notice, along with information as to the reported basis of the claimant's disability, his occupation, and instructions for the physician's report to the agency. The schedule of fees for such re-examination is the same as that used for workmen's compensation. The California agency believes that use of an independent medical review increases acceptance of the program by physicians and claimants.

The California and railroad procedures appear to be widely applicable, since the geographic distribution of cases requiring examination throughout the State and the fluctuation in the load from week to week, will produce less than a full time load for a sufficient number of competent physicians to cover the entire State. In some States, it may be desirable to use full-time salaried physicians in the larger urban areas and private physicians on a part-time salary basis or fee basis elsewhere.

1* Except for California's acceptance of religious practitioners.

SUMMARY

For the most part,temporarily disabled wage earners receive only limited benefits under private employer and union plans, under the railroad cash sickness insurance plan, and under the temporary disability programs of Rhode Island, California and New Jersey. In addition, Washington and New York have adopted temporary disability insurance programs, under which benefits are not yet payable.

Notwithstanding these developments, progress throughout the Nation has been slow. Furthermore, as State programs are now developing — under both employment security and workmen's compensation agencies, and with various combinations of State and private administration—the result may be a disparate and confusing patchwork of State programs, differing one from another in both administration and benefit provisions.

There are real dangers inherent in this haphazard pattern. Different requirements among the States or unequal insurance rates among employers within a State may lead to unequal costs among competing firms and an undesirable restriction of benefit provisions. If there are many different plans with varying qualifying requirements and benefit provisions, employees who change from one employer to another or move from State to State may lose protection. A multiplicity of administrative plans and organizations—private and public—is an expensive and unwieldy means of paying benefits. Social insurance protection in this area should be based on a single, uniform program.

A national approach to temporary disability insurance, is, therefore, recommended to meet current economic needs of disabled wage earners during short periods of illness and in the first 6 months of longer disability. Benefits should be paid weekly to insured employees who are unable to perform their usual work for periods of 7 days or longer. Payments should be related to the basic needs of the average worker, giving due consideration to the number of his dependents. To qualify, a wage earner should be regularly employed during a recent period, and the amount of his benefit should be related to his recent wages. Benefits should be paid for a limited period and should be terminated upon recovery or entitlement to benefits for permanent disability.

New Developments in Employee Disablity Programs

Summary of Discussion by

T. Y. Beams, Eagle Globe Royal Indemnity Companies
New York City

Many of us have noted with grave concern the increasing tendency on the part of the government to enter further into the field of insurance and other lines of private enterprise.

We have been moving away from the American system of private enterprise. Our concern is occasioned by the fact that the American system of private enterprise, safeguarded and improved through generations, has brought American citizens the highest standard of living a people have ever known and has made our citizens the envy of all the world.

During the past decade, and more particularly during the past five years, there has been a great demand for and a rapid growth of voluntary accident and health insurance.

According to a survey of accident and health coverage in the United States as of December 31, 1948 prepared by the Survey Committee of the Health Insurance Council, 33,410,000 persons are protected against loss of income. The survey also shows 60,995,000 persons protected against hospital expense, 34,060,000 against surgical expense and 12,895,000 against medical expense.

It is interesting to note that the number of persons protected against loss of income was 7% higher than the number covered during the previous year. The number protected against hospital expense, surgical expense, and medical expense was increased by 16%, 30% and 45% respectively. Claims for the most part were settled promptly, equitably and courteously ,and it is quite evident that the insurance companies have done a much better job than Government with its attending temptations would have done.

Although a sizeable majority of our people have been covered by some sort of accident and health insurance, we should not be satisfied to stand still. More people should be persuaded to obtain insurance which will guarantee better medical care. It is important, however, that our people be permitted to place the insurance they desire with an insurer of their own selection.

Many of us are definitely opposed to legislation which would force people to obtain insurance from a governmental agency at a tax or premium determined by governmental authority, and expose themselves to such lack of attention and inefficiencies as the system imposed upon them might develop.

Insurance companies have done far more than pay for injuries, diseases and deaths. Among other things, they have spent millions of

dollars in safeguarding people against injuries and diseases and their work and contributions have also been largely reflected in the increase in the average life expectancy over a period of 14 years from 58 to 68 years.

It would take much more time than I have at my disposal to review in any detail the outstanding contributions made by insurance companies directly and collectively through boards and associations and in cooperation with various other groups. I would like, however, to call your attention in particular to the fact that at the present time the National Board of Fire Underwriters, through it special committee on hospitals and in cooperation with the Association of Casualty and Surety Companies and other organizations, is now excercising general supervision and direction of the nationwide plan to survey and report on life safety in hospitals. This is a great public service and will doubtless result in much good.

In 1949 the Life Insurance companies set up the Medical Research Foundation through which monies are granted to various organizations for medical research into the causes and treatment of heart diseases. Last fall the Foundation received the Albert and Mary Lasker Award with this citation: "The Life Insurance Fund has set a pattern for the cooperative support of medical research by private agencies which possesses fundamental social significance for the public health."

More than a quarter of a century ago an outstanding insurance executive made this sage observation: "An accident prevented is a benefaction, while an accident compensated is a confession of failure."

The value of protecting life and limb has long been uppermost in the minds of insurance leaders from the standpoint of the public good as well as from the standpoint of good business. The interest was never greater than it is today.

Only recently another insurance executive made this observation:

"The safety and life-saving work of American insurance companies is a facet of capitalistic enterprise that no other nation and no system in the world can match."

I submit that insurance companies have proved their ability to render outstanding service in providing insurance under Temporary Disability Benefits Laws and there is no real need for the Government to enter the insurance field. In my opinion, there are good and sufficient reasons why it should not.

In the event that there is no State Fund, the less desirable risks which might otherwise find it difficult to obtain insurance may be properly cared for under so-called assigned risk plans such as the insurance companies have been using successfully in several states with respect to Workmen's Compensation and Automobile Liability Insurance coverages.

At the present time, all of our states and territories have Workmen's Compensation laws applicable to on-the-job injuries or sickness under conditions prescribed by the laws. Eight states and Puerto Rico have set up monopolistic State Funds and private insurance is not permitted. Eleven states have State Funds in competition with private carriers. In the remaining 29 states, Alaska, District of Columbia and Hawaii private carriers only write the insurance. Although no exact figures are

available, it is conservatively estimated that the private carriers have written approximately 80% of the insurance providing coverage under Workmen's Compensation laws.

Only four states have thus far adopted Temporary Disability Benefits laws applicable to off-the-job injuries and sicknesses. Such laws have been adopted by the states of Rhode Island, California, New Jersey and New York.

A Temporary Disability Benefits law was passed by the legislature of the state of Washington in 1949. A referendum petition on the law was filed by the secretary of state, thus suspending the effective date of the law pending the outcome of the vote in the electorate on November 7, 1950. The petition, filed on June 6, 1949, contained over 70,000 signatures whereas only 30,000 are required. The law, incidentally, provided for a State Fund in competition with private carriers.

Rhode Island was the first state to enact a Disability Benefits law. The law, passed in 1942, was made applicable to injuries and sicknesses occuring on or after April 1, 1943. It provides for insurance in a monopolistic State Fund and no private plans are allowed in substitution thereof.

The California law, passed in 1946, applies to injuries and sicknesses occurring on or after December 1, 1946.

The New Jersey law, passed in 1948, applies to injuries and sicknesses occurring on or after January 1, 1949.

The New York law became effective, in part, on April 13, 1949. It does not, however, apply to injuries or sicknesses occurring prior to July 1, 1950. It specifies that if a plan or agreement in existence on that date, and which continues to be effective on July 1, 1950, provides disability benefits for employees, the employer will be relieved of responsibility for making provision for benefit payments under the law until the earliest date on which the right to discontinue the provisions of the plan or agreement or his contributions toward cost.

The period for determining the employer's status as a "covered employer" under the New York law began July 1, 1949.

During the period of six months from January 1, 1950 to June 30, 1950 inclusive, there is to be a payroll tax not to exceed 12c per employee per week for that period. This tax will be divided evenly between employer and employee. From the tax collected there will be created a special fund primarily for the payment of benefits to those who become disabled while unemployed and after they have been out of "covered" employment for more than four weeks. After June 30, 1950 the special fund will be maintained by, and administrative funds will be secured through, a small annual assessment on all carriers and self-insurers proportioned according to payroll.

Unlike other states, New York has added its Disability Benefits Law to and made it a part of the state's Workmen's Compensation Law. The New York Standard Endorsement attached to Standard Workmen's Compensation and Employers Liability policies was amended so as to make the policy inapplicable "with respect to any obligation imposed upon this (the) Employer by Article 9 of the Workmen's Compensation Law of the State of New York (Chapter 600 of the Laws of 1949) or by

any laws amendatory thereof or supplementary thereto." The designated "Article 9" is the new Disability Benefits Law.

The State Insurance Fund which writes the Workmen's Compensation insurance will also write the Disability Benefits coverage in competition with private carriers.

Administration of the New York Disability Benefits Law will be under the Chairman of the Workmen's Compensation Board which also handles Workmens Compensation claims. In the case of disputed claims (and it is expected they will be very few in number — perhaps 3% or so of the total number of claims) the employees may file with the Chairman of the Workmen's Compensation Board notice that claim for benefits has not been paid together with information necessary for the determination of the employee's right to benefits. The Board has full power and authority to determine all issues in relation to a claim for benefits required or provided by the law. It should be noted that although separate records and statistics are to be kept, the hearings on disability benefits claims will be conducted by the same personnel that passes on Workmen's Compensation claims. Compensation Board notice that claim for benefits has not been paid, together with information necessary for determination of the employee's right to benefits.

The Board has full power and authority to determine all issues in relation to such claim for benefits required or provided by the law.

It should be noted that although separate records and statistics are to be kept, the hearings on Disability Benefits claims will be conducted by the same personnel that passes on Workmen's Compensation claims.

There are many who have expressed the opinion that the New York Temporary Disability Benefits Law, with its elasticity and allowance for greater freedom of action, is the best of the laws passed to date. As the law continues in operation, and experience thereunder has been gained, we will be in a better position to pass on the law, and compare it with other statutes.

I am unable to discuss the New York policy and endorsement forms, premium rates and administrative regulations, as same are still under consideration

In respect to the general situation, and with due regard to present trends, it is safe to assume that a high percentage of policies issued will provide benefits in excess of statute provisions and will also provide a broader and more extended coverage than prescribed by Temporary Disability Benefits statutes.

In California and New Jersey, numerically and proportionately fewer private carrier than State Fund claims have been appealed. Furthermore, in both states (particularly in New Jersey) the trend toward private carriers is increasing.

In respect to New York, it is expected that the casualty companies will write a higher percentage of Temporary Disability Benefits policies than in California or New Jersey. This is expected particularly because of the closer tie-up with "Compensation" in New York.

The Temporary Disability Benefits laws of all three states (California, New Jersey and New York) do not permit the State Fund to decline risks for underwriting reasons and, moreover, under the laws of these states

the State Fund is authorized to write only benefits prescribed by the law.

So far, there has been no real evidence of malingering in either California or New Jersey but in the event of a business depression or unemployment situation, "malingering" may become a factor which the companies will have to guard against through more careful check on claims and circustances surrounding them.

As I view the future, I envision increasing demands for higher benefits and more extended coverage and the possibility of encountering trouble in certain states in obtaining rates which will be commensurate with increasing insurance protection.

Recent Developments in Employee Disability Programs

Summary of Discussion by

Harry Becker, Director, UAW-CIO Social Security Department

Disabling illness and accident, and the resulting wage loss is a major hazard facing workers today. Labor is no longer willing to leave to chance the question of whether or not a worker has protection against the time when he may be unable to work because of illness or accident. Labor has, therefore, undertaken a two-way drive to attain a program which will compensate the worker for part of the wage loss which he suffers during such periods. First priority is given to the establishment of a public program which will provide a basic floor of protection for all workers wherever they may live and whatever their occupation; and, to the extent that the public program is inadequate in terms of full coverage and amount of benefits, a supplementary disability benefit program will be sought through collective bargaining.

Labor insists upon recognition by the employer that protection of the worker against the hazard of disability is an aspect of the cost of doing business. It is a part of compensation to the worker. Labor is, therefore, unwilling to leave to the employer alone decisions on the amount of the benefit, the eligibility specifications, or other important details of administration. Protection for the worker who cannot continues at his job because he is disabled is a collective bargaining item equally important as wages and other conditions of employment.

The standard of benefits desired by labor is not complicated. A worker should have protection whenever he is unable to permorm the duties of his occupation because of physical or mental disease or injury. The amount of the benefit must be sufficient to meet essential living and household expenses for the average worker. If the disability should prove of long duration or to be permanent, incapacity benefits — as retirement benefits — should be provided. The amount of the benefit should substantially exceed public relief standards. We are not providing security to workers with benefits which are less than or even equal to public relief standards. Disability benefit programs offering benefits of this amount are subsidies to public relief and not substitutes therefor.

In designing a program of disability benefits, whether under collective bargaining or governmental auspices, there must be close coordination with community medical and psychiatric services and the rehabilitation agencies. The program of disability cannot be attacked merely through weekly cash benefits. Too often responsibility has been discharged by provision of a weekly cash benefit with failure to consider the total problem of the disabled worker. One of the serious limitations of the disability benefit insurance made available by the insurance companies is the absence of the program element necessary to bring about

coordination of income maintenance, medical care and rehabilitation services. Integrated services do not just happen. They must be first planned and then administered.

Our failure to solve the problem of income maintenance for a family during periods when the worker is disabled is now recognized. Most of the legislatures in the larger industrial states have considered some form of State disability insurance programs in the last ten years. Four states have enacted laws, in a fifth state an Act passed by the legislature will not become effective unless approved by a referendum in November, 1950. While the Congress has enacted a law for railroad workers, the House of Representatives, in considering the Administration's proposals for expansion of the Social Security program, deleted all provision for temporary disability benefits although giving recognition to the inclusion of incapacity retirement benefits.

Although it is likely that other states will enact legislation in the next year or two, labor must support a Federal program. Labor remembers too well the 38 years that elapsed before all states enacted workmen's compensation laws. It is not content to wait another such period for state action in the field of non-occupational disability. While state action can be speeded through the enactment of Federal tax legislation similar to the Federal Unemployment Tax Act, labor believes that the most satisfactory solution to the total problem of insecurity is to include a coordinated program of protection against losses arising from sickness and accident within the framework of national social security legislation.

The reasons for labor's failure to support State programs wholeheartedly are many but chiefly they can be stated as follows:

1. *Diversity of Programs.* With a State by State approach there would be 53 (counting the States, the District of Columbia, and the Territories) different programs with all the complexities and inequities which have developed in the State Workmen's Compensation and Unemployment Compensation laws. Workers who work in more than one State might find themselves without protection under the laws of any State or with limited protection under the laws of one or more States. As pointed out in the report of the Senate Advisory Council on Social Security, the attempts at interstate cooperation in unemployment compensation have not proved successful. The level of benefits and other program standards in the States would be determined largely by the effectiveness of the various lobby groups, with labor supporting a liberal program and other groups pitted against labor for a more restrictive program. The end result of the State by State approach, at best, would be a patchwork of programs not unlike grandmother's quilt in appearance. A uniform and universal program for all workers in America would be an impossibility.

2. *Financing of benefits.* The State by State approach inevitably means a less satisfactory basis of financing and a resulting lower level of benefits. The most important elements in the benefit cost of a temporary disability program are the frequency and duration of disability and these are affected by the composition of the covered population in terms of sex, age, marital status, income level and occupation, and by the availability and adequacy of medical services. Since these

factors will vary from State to State, and not all States will produce the necessary revenue by the same payroll tax, equal and adequate protection to all workers is not possible with 53 separate State disability trust funds and a uniform contribution rate in the different States. Since the uniform contribution rate is likely the result will be lower benefits in many States. State benefits thus far provided are at virtually sub-relief levels.

Existing State programs are for the most part financed entirely through a tax on the workers. They do not recognize the principle that protection for the worker is a cost of doing business and should be borne, at least in large part, by the employer. A dollar contributed by the employer will buy more in the way of beneftis than a dollar given to the worker and then checked off because the worker pays an income tax on his dollar while the employer receives a tax deduction for his. If the source of funds is entirely from the worker's pay envelope, the tendency is to keep such deductions low with the result that the benefits, too, are low. This defeats the purpose of the program.

3. *Restrictive Character.* The restrictive and inequitable programs which result from the State by State approach is evidenced by the trend towards incorporating into the temporary disability program the disqualifications developed in unemployment compensation. This is true even in the one State which has placed its temporary disability program in the Workmen's Compensation Board rather than the State agency administering unemployment compensation. Unemployment insurance is intended to compensate for wage loss due to unemployment caused by the lack of suitable work. Disqualification provisions are designed to prevent the payment of benefits for periods of unemployment due to the disqualifying act rather than the lack of suitable jobs. When an individual becomes disabled, however, there is no question but that any subsequent unemployment is immediately due to the disability. This is true even where a worker becomes ill immediately after quitting a job without good cause, since even if he had not quit and were working at the time he became ill he would still be out of work because of disability. Consequently, there is no basis for unemployment insurance disqualifications in a temporary disability program.

4. *Contracting Out.* State programs have with one exception permitted coverage under private plans, which are either self insured or underwritten by a commercial insurance carrier, to be substituted for coverage under the State fund. The goal of social insurance — to provide basic protection to all workers at the lowest over-all cost—cannot be achieved if each group must bear its own risk. This is particularly true in temporary disability insurance where the incidence of the risk is so different for groups with different sex, age, occupational and other composition. "Contracting-out" is likely to result in the insurance companies taking the preferred risks and leaving the public program with the poor risks and a resulting higher cost or lower benefit for the group covered by the State fund. And since the premium income of private carriers must be used to cover expenses such as salesman's commission and advertising costs, as well as profits, which the State plan does not have, the net result is that a smaller proportion of premiums will be paid out in benefits than under an exclusive State program. Moreover, since

insurance companies are primarily concerned with the "insurable risks" it will be almost impossible under program which permit "contracting-out" to develop coordinated medical and rehabilitation services which will shorten the period of disability or the unemployment resulting therefrom. There is no justification from labor's point of view for "contracting-out" unless it can be shown that this method will result in a more efficient program with a higher standard of benefits for all workers. Examination of private plans has not demonstrated that this is so.

For the purpose of discussion and as a yardstick by which to measure public program proposals there should be agreement on a few basic principles essential for a good public program. As such a yardstick the following very general principles are suggested:

1. Disability benefits should be provided as a part of the Federal Social Security System with national standards of benefits universally available to workers wherever they may live and whatever their occupation. This requires Federal standards of administration whether the program is or is not administered as a part of existing State social security organization.

2. The program should be entirely governmental with no "contracting out." Private plans of all types should not become interwoven with the public system, but should be entirely free to fill the gaps and to provide supplementary benefits over and above the national minimums established by legislative action.

3. All workers should be covered and the definition of disability should be comprehensive and thus protect workers regardless of whether the disability is accidential or is due to physical or mental illness. It should include disabilities associated with pregnancy as well as benefits for the period immediately preceeding and following child-birth. This period should be long enough to protect the mother from working longer than desirable before delivery as well as from returning to work too soon after termination of pregnancy. This period might be eight weeks or longer.

4. The level of benefits should be sufficient to maintain the average worker's family on essentially the same standard of living enjoyed before onset of disability. Benefits that are less than or no more than public relief standards negate the very purpose for which the program is being established. The problem of malingering should not be met by establishing a low level of benefits. The answer to malingering is not to lower or keep benefits low, but to provide for adequate administrative procedures and policies including integration with community medical and rehabilitation services. This level of benefits should continue as long as the worker is considered to be in the labor force. However, at the point it is recognized that he is probably permanently disabled he should be transferred to the disability retirement program.

5. The cost of benefits under the public program should be met through employee and employer contributions and provision should be made for use of general revenues.

6. Public programs must allow for supplementation from collective bargaining programs and from individual and group insurance.

Some of these principles break with traditional thinking on what is practical in provision of disability benefits. That is to be expected, but we nevertheless must look ahead. We must consider disability benefits a matter of public policy equally important with provision for retirement income when workers cannot continue in their jobs because of age or permanent incapacity.

There is much to learn about the administration of disability benefits. There has been sufficient experience, however, to establish the essential elements of the problem and to gain confidence in the idea that we can eliminate inability to work because of accident or illness as a reason for application for public relief. The insurance companies have demonstrated that disability benefits are practicable and the railroad industry and several of the States have pointed the way toward programs much broader in scope than was considered possible even a few years ago.

New Developments in Employee Disablity Programs

Summary of Discussion by

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1. The pros of compulsion for cash benefits under temporary non-occupational disability might be:

(a) It has been talked about so long by the salesmen of group disability as though it were necessary, that completeness won't be too much change.

(b) The planners have their hand in (though they have solved nothing) so that letting them do more might help to show them up.

(c) We are in the Fair Deal — and in taking over personal responsibility, temporary disability hits a lot more people every year than death or old age or any other catastrophic item— natural extension to "take care of them."

(d) With only one insurer, it is easier to transfer funds from purpose x to purpose y.

(e) We no longer believe in the ability of the citizen to meet his responsibilities nor are we organized to service all the people through individual protection.

The cons of compulsion — or pros of the voluntary scheme — are:

(a) Voluntary provision is more in accordance with the free way of life — freedom as to choice, rather than free from Santa.

(b) The last few years have seen marked advances in the availability of the individual contract, and tremendous advance in the mass or group coverage. Normal evolution is superior to hot-house forcing (consider the 100% British attempt at medical care.)

(c) Competition helps to develop a better product and more efective responsibility. (Lang's book shows some of the advantages in Workmen's Compensation.)

(d) A lack of choice led the way to the insufferable Germans. Heaven preserve us from the brashness of a Becker or a Cohen in charge — they are bad enough as debaters!

(e) The fact of a shrinking area of personal choice is horrible. Let us stop the shrinkage, and limit compulsion to the catastrophic areas.

2. Under the assumption that the cons have been completely ignored, then the case for Federal vs. State compulsion can be summed up thus:

Pro Federal:

(a) In line with the arrogance of the Social Security bunch to reach out for more worlds to conquer, and in picking the multi-claim requirements of Temporary Disibility, they would find plenty to do to supervise the chicken-feed.

(b) With only one insurer more continuity of protection, and more of the deadly monotony of sameness.

(c) "Papa knows best." They say they want it.

(d) In a package plan it would seem that there would be some cut in overhead.

On the other hand: there are a few things against the Federal handling and in favor of such a law as that of New York:

(a) Less transfer of existing plans from satisfactory insurers, with the upsetting effect of such things as happened in Rhode Island and could be expected to happen in the country as a whole.

(b) Room for the variety which has already developed,and further sound evolution.

(c) Gives time for intelligently fitting the individualty of of a Sovereign State.

(d) Gives time for sound evolution in the advance, not in excess of the facilities.

(e) Makes use of insurance people — not just bureaucrats — and could make the service have long-range instead of dangerously short-range planning as has been so horribly the case in the existing programs under Federal direction.

(f) Might permit understanding to advance with utilization of the expanded services.

(g) A greater chance of cost-sense.

3. Having run the previous section as though the "state" idea was the New York brand, a lot of that probably belongs in this section. But, pro private:

(a) Moves from the sense of individual and mass protection that has developed under private administration, that is, under the general supervision of the State Insurance Department, this giving more of the checks and balances.

(b) Among the *a* advantages would be the accumulation of contingency reserves — so happily ignored by Wilbur and Harry Becker — in a larger scope still, the sense of limited credence to the short period experience.

(c) In a larger way our private companies would be closer to the responsible Friendly Society attitude of life-time protection that is the secret of the old British belief in constructive analysis, while the purely State coverage is apt to be tainted with the sort of Federal irresponsibility that is so apparent in the "cost of benefits plus expenses of inadequate administration" as the whole cost picture. More simply still, insurance companies have tended to collect more than they need, so as to be sure to have enough, while the state tends to collect less than they will need, so as to make state administration seem low.

(d) Private Companies among them and with the state supervision have a considerable technical staff. The record of the Federal non-statistical, non-actuarial approach, is so bad that I would trust more to the strict standards of the actuaries than to the State bureaucrats.

(e) But by making the coverage competitive with the non-cost-minded State, the stimulation to knowledge and to techniques among the insurers will bring out information as state after state considers such plans.

The con private, and pro-state-monopoly arguments:

(a) A single carrier can accomplish connected coverage, not broken by a change of employment.

(b) A single carrier will have all benefits alike.

(c) Given advance Federal guidance, it should be easier to transfer to the Federal government when the time comes.

(d) Whenever there are bureaucrats, their way is easier to have no intelligent opposition. To educate fast all the insurance companies of California, New Jersey and New York will strengthen the hands of the belivers in limiting Government control.

(e) Both claims and expenses take a long time to show up — and particularly there is delay in good times in getting a full claims experience. New administrators are always more cocky than experienced ones. They are convinced that history teaches nothing.

4. (a) Since complete coverage substitutes completeness for selection, the need of underwriting seems negligable. Yet there is needed the knowledge of the business that comes from underwriting. We lack knowledge of claim frequency and the frequency distribution such as has developed in England — the differences between sexes, employed and unemployed, married and unmarried persons. The cocky bureaucrat has so heavy a sales and propaganda complex, tht he is not interested in finding out — and in the insurance business, the experience has all too largely been regarded as "our own business" or hardly important. The companies have become more adept in explaining their ignorance than in lessening it. Age is important, a sense of permanent, instead of temporary protection, and the whole structure is taken on faith during the white heat of getting things settled, and in the early years of administration. The modesty that comes from known ignorance tends to be lacking on both sides.

(b) Claims administration has shown up over a century in England's friendly society administration, as steadily upward, not only because of rising age, but because of the fatigue of being too vigilent. The facts of higher claims when benefits are higher and the facts of higher claims, as "let George do it" becomes the rule, the recognition that when fringe benefits are something extra, and the collections have to be high to get one's money's worth, as employers or others pay for it, where payments are far removed from the contributors' responsibility — such simple bits of knowledge have to be considered.

5. A few additional observations:

(a) Private companies skim the cream of the market. The selfish good employers prefer to go where their lower costs will be reflected in the premium they are paying.

(b) The quotation of figures in Worken's Compensation by Wilbur and Harry were, it seemed to me, thoroughly irresponsible—the Sanders-Flak last!

(c) Careless ignoring of preventive costs contingency reserves, etc.

(d) When Government counts on inflation, and intends to use it, there can be expected a steady play for increased dollar benefits, and deferred cost recognition.

(e) Expenses on little cases occur regardless of the cost accounting. They may lost in the shuffle, but they are there.

(f) The combination of studied subsidy, of sentamentalized ineptitude of the individual, of "a shillin' for thruppence," the curse of the whole thing.

(g) Probably the only logic in government coverage applies to the catastrophic cases, and the moral harm by taking away from the citizen his own responsibility is a couple of steps on the road to serfdom.

(h) The major difficulty in governmental administration is its superiority both to knowledge and to disciplined staff — and its being a sucker for low costs representing incomplete knowledge, education and services as equivalent to thrift — "the funeral cold meats to furnish forth the wedding breakfast."

(i) The private advantages of carrying forward existing wisdom, existing variety, the package plan with other coverages.

(j) The happy circumstance that the transfer of funds from Unemployment Compensation cannot be used in many other cases.

Recent Developments in Employee Disability Programs

Summary of Discussion by

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For purposes of today's discussion the panel members have been instructed by the moderator to assume that compulsory disability benefits are a social need requiring legislative attention. Therefore, we are confining our remarks to the desirability of legislation for such programs at the federal or state level.

We are told by two members of the panel that a national program operating under a simple federal law is the sole means of effectively administering a program of cash sickness benefits for the workers of America. It is argued that the administrative machinery to go forward is already available through the existence of the Social Security Administration with its various regional and local offices and that the cost of administering a federal controlled program would be less than that necessary for private insurance carriers to furnish comparable benefits under voluntary insured plans. The administrative costs approach is based on the premise that a federal law would restrict the allowance of administrative expenses for the enforcement agency to a nominal percentage of the tax dollars exacted from employees and employers to finance the program. Such economy theoretically would conserve a maximum share of the tax dollar for benefit payments to the covered workers. The advocates of a federal program envision great confusion if disability benefit plans are legislated at the state level whereby 48 or 53 different laws would be in operation.

Well, let us examine the situation and see if we can't help banish the fears of our good friends.

Our nation has grown from infancy into healthy maturity from the nourishment and care fostered by the individual laws of the 48 states—laws which produce a minimum of confusion. The great confusion emanates from the laws of the federal government—laws that bewilder our people and spread universal confusion. To the taxpayer and worker none of our federal laws is simple to understand so it is doubtful that a simple law could be contrived to administer without confusion a national program of disability benefits. It is the experimentation and the operation of laws at the state level that produce progress. Mistakes embodied in local laws can more readily be detected and corrected at a fraction of the loss to the public pocketbook involved in the colossal cost to the nation's financial structure that result from tardily detected errors in federal laws. No, we should not accept the theory that Washington can do this job better for even a general and cursory glimpse of the record reveals the contrary. There are already acres of

office buildings housing huge armies of federal employees engaged in the operation of numerous, vast and spreading existing federal programs. Should further burdens be heaped upon our central government or should we help to conserve its strength and power for effective use in periods of national emergencies?

Of course the Federal planners ignore the value or merits of the existing voluntary plans of insurance against loss of income due to disability. Voluntary plans originating through employer initiative or developed by collective bargaining between labor and management that prvide sick benefits to millions of employees would be loosely tossed aside to make room for a tax-supported, government-operated program.

The destructive waste of such action need not occur with thoughtful planning of state level programs despite the existence of a maladjusted goverment monoply law in Rhode Island, the first state to enact a cash sickness statute.

The faults of a government monopolistic program in the field of social insurance became evident soon after the Rhode Island program was put into operation. For two out of the four years (1946-1949) of operation of the Rhode Island program they paid out more money than they took in despite the courageous and sincere efforts of the administrative personnel to make the program work.

In contrast California and New Jersey, the states following Rhode Island into the cash sickness field, have enjoyed fine results. It is significant that good experience followed the state programs that recognized the value of voluntary plans. Under the California and New Jersey laws voluntary private plans may be substituted for the state operated fund plans if deemed more desirable by employers and employees. Thus the true aims of this social legislation is achieved—employees not insured under private plans for more liberal weekly cash sickness payments automatically become covered for the uniform schedule of benefits payable under the state plan.

Some would have us believe that the state funds of New Jersey and California will suffer under the competitive conditions of the laws. They say that the private insurance carriers will insure all the good risks and leave the poor ones for the state. This is not so because the laws or administrative regulations governing both programs contain proper safeguards to prevent such attempts.

The agency reports covering the years of operation of the California and New Jersey programs reveal conslusively that the state funds are prospering and have not been affected by adverse selection.

Another bit of misleading propaganda frequently heard in favor of government monopoly program is: uniform floor benefits financed by payroll taxes could be provided for all employees and supplemental benefits could be furnished by volnntary private plans. Of course such statements are foolish because the administrative cost of handling a policy providing $8.00 of weekly benefits is just as much if the weekly benefit is $30.00. Therefore, if the employees are under a state plan providing $22.00 per week, the premium cost of a policy to provide the supplemental $8.00 benefit would be too high. The result — the minimum benefits of the government plan would become the maximum benefit available to disabled workers.

To summarize and evaluate the cash sickness programs now in operation, we find that the Rhode Island monopolistic State Fund has experienced great difficulties while New Jersey and California, where private plans compete with the State Fund, report smooth and successful progress.

It will be interesting to watch the projection of the New York program which gets under way in 1950.

The Disability Benefits Law of the Empire State approaches the subject from a different concept than the other stat laws. Emphasis is placed on private facilities rather than the state government in this latest law. Unlike the other state programs, employers cannot by negative action automatically fall into a state fund. New York employers must take positive steps by July 1 to furnish a plan of disability benefits for employees by self insurance—from a private insurance carrier—or from the State Insurance Fund. Unlike the state funds of other cash sickness states, the New York Insurance Fund operates like a private carrier paying premium taxes to the State and being subject to the state insurance law for rate filing and reserve purposes.

The new law will be administered by the Workmen's Compensation Board rather than the Unemployment Compensation Commission that directs programs in Rhode Island, California and New Jersey.

The University Teacher Looks at Company Educational Programs

Life Insurance

by

Hampton H. Irwin, Professor of Insurance, Wayne University

This audience is well aware of the difficulties inherent in the topic which has been assigned to me. To begin with, it would be a courageous teacher indeed who would presume to pass judgment upon company educational programs, just as a home office man might have some trepidation in pointing out shortcomings of educational programs in our colleges and universities. Nevertheless, I am sure we are agreed that it is to our mutual advantage to see our respective problems as objectively as possible and it is in that spirit — the spirit of constructive helpfulness — that I make bold to offer for your consideration, certain criteria as a basis for appraisal and evaluation of company educational programs.

May I emphasize again that it is not my intention to pass judgement upon company training programs. Rather, I desire to suggest certain criteria which I hope will be useful in appraising the educational programs and their effectiveness as a whole and equally helpful in providing a measuring device for the effectiveness of any specific company program.

It has been my privilege to be engaged in the sale of life insurance as an agent for some twenty odd years during which time, as an avocation, I did a great deal of teaching both in so-called practical sales work and in the professional subjects included in the C.L.U. Study Program. In addition, my seven years as educational director at the home office of one of the large New England companies brought me into direct contact with many of the problems with which the paper will be concerned, and, too, I was privileged to see at rather close range the operations of quite a few companies in this particular line of endeavor. Since my return to the academic field, no longer as an avocation but as a vocation, I have made every effort to maintain and extend my contacts with various companies both directly and through professional societies and associations because I feel my effectiveness as an instructor depends, to a very large extent, upon my ability to bring the institutional point of view to my students. I bring you this brief summary of my experience so that you may take it into account in evaluating the points which I shall mention. Thus you can apply whatever discount you deem desirable for my bias or lack of exact information depending upon whether you lean toward the company or the teacher's point of view. While many of my observations will apply to both combination and ordinary companies, I shall deal primarily with the educational programs in companies writing only ordinary business.

Turning now to a definition of the problem, we are immediately

faced with the fact that there are two main divisions under which all company educational programs for agents can be classified. First of all, there are the specific provisions for training the new agent and making him successful in the business. The second classification is the training, re-training, and continual training of the established agent. Obviously it is impossible to separate into mutually exclusive spheres the educational activities intended for these two general groups; rather, much of the material intended specifically for the new agent is also applicable for use with the established agent and vice-versa. Parenthetically, I might say that the effectiveness and the extent of the effort directed toward keeping the older agent successful may be a very important criterion of the over-all effectiveness of the educational program.

There is no universally acceptable definition distinguishing the new agent from the experienced or established agent. Some companies feel that after one year, an agent can be considered an experienced agent but more companies seem to believe that an individual belongs to "new organization" for two years and in some cases even three years or longer. Probably the majority of companies consider the dividing line either at the end of two years or three yeas. Forward looking educational directors today are quite positive in emphasizing the importance of the training, re-training, and continual training of the established agent. It is no mere play on words that I have indicated the problem as "training, retraining and continually training" the established agent. In all too many instances, the training of the veteran agent in years gone by has been rather sketchy, to say the least, and all too often he has been allowed to follow the way of least resistance so that it is necessary that he now be trained, as well retrained, in the light of modern life insurance selling and all that this implies from a professional point of view. Again, there are few trainers indeed who do not recognize the necessity for stressing the continual training of the experienced agent to keep him abreast of the rapidly extending frontiers of the business to say nothing of the new applications of the fundamentals to the ever changing needs of his clients and prospects.

It seems to me that the life insurance companies are to be congratulated upon the tremendous strides they have made in educational programs in a relatively short period of time. When you stop to consider that as recently as ten years ago very few companies had an educational director or a director of training and that only a few had a course of instruction or training adequate to the task at hand, the progress which has been made is really amazing. Seminars, conferences, movies, slide films, sound recordings and the like were conspicuous by their absence and yet today they are taken as a matter of course. Nor should we over look the tremendous progress which has been made in the last decade and a half in training general agents and managers. Through the good offices of the Life Insurance Agency Management Association, hundreds of general agents and managers have been trained in both the immediate techniques of their job as well as in the larger social and economic implications of their task. Surely this is

cause for great satisfaction on the part of company administrators because in the last analysis, few will question that the company educational programs will stand or fall as the general agent or manager is able and anxious to implement and supplement them.

Within the past ten years or so another new development has taken place The supervisor has been granted official recognition. This, of course, is nothing new so far as combination companies are concerned, they have long used supervisors under the title of assistant managers; but it is somewhat of a new departure with respect to ordinary companies. On the one hand the supervisor has become recognized as a general agent or manager in training — a sort of apprentice for a managerial position. In other cases it may even be said that the supervisor is taking his place as an integral part of the agency's operation without too much regard to promotion to managerial status. It is my opinion that the future development of educational company programs will, to a larger and larger extent, depend upon the effectiveness of the supervisor. In the small agency, of course, the general agent must assume the duties of supervisor but the tendency in the larger agencies seems to be more and more toward the use of supervisors in the actual training and supervision of the sales personnel. We might perhaps profitably devote additional time to a consideration of the problems inherent in the efficient training of supervisors but suffice it to say here, however, that training programs for supervisors are now being introduced by more than a few companies, sometimes by means of formal programs but more often in the form of conferences or seminars. Also, in passing, we might note a tendency on the part of the companies to provide specific training for their general agents and managers apart from the usual managers' conventions.

The scope of company training activities in addition to formal educational programs is truly impressive. We are all familiar with the company convention which was perhaps one of the first organized methods of education and training for the field forces. As companies became larger it was necessary to hold regional conventions and today lack of space and hotel facilities make it difficult if not impractical for many of the larger companies to have a meeting of the entire field force. This problem is sometimes solved by having meetings on a national scale but restricted to the top sales personnel or to those who have been in business a certain length of time or to those who are interested only in specialties such as pension trust, business insurance and the like. In addition, seminars and conferences are held to instruct the field forces in particular fields of specialization; it may be a company copywrited sales plan or perhaps some phase of business insurance or of pensions or group insurance. Then again, home office instructors may conduct a training course either of a general nature or in some specific phase of the business for the members of agencies in a certain geographic area. Then too, we should always keepin mind that continuous training is carried on by means of meetings in the agency itself conducted by the general agent or manager. The company magazine and special bulletins from the home office add their part to the training process.

Turning our attention now to the various types of formal education,

we have home office schools conducted by home office personnel either in the home office itself or regionally throughout the country. Most of these schools are concerned primarily with training the new agent. Then, too a larger and larger extent, continuation courses are being conducted by home offices in which the agent is brought back periodically for more advanced work. In many cases, correspondence courses are available and these are particularly useful where agents are scattered in rural areas or where for one reason or another the new agent cannot readily be given adequate personal instruction either by the general agent or manager or the company. However, we must never lose sight of the fact that the bulk of the training for both the new and the experienced agent is done by the manager or his assistants in the local agency.

When we consider the various methods of instruction we should perhaps add to the time honored lecture, discussion and demonstration techniques, the not so obvious techniques of drills and rehearsal and, above all, the coaching on the job method which is so valuable in present day training. All the modern facilities of visual aids, movies, sound slide films, sound recorders, etc., are available and naturally the effectiveness of any individual company educational program can be greatly enhanced by their use. In days gone by, the arguments pro and con went on *ad infinitum* as to the relative merits of the "canned" sales talk. Modern training technique sidesteps this argument but it insists upon the most painstaking drill and rehearsal of the sales presentation, using on the one hand the most modern scientific devices such as sound recorders and on the other hand, requires prolonged periods of drill and rehearsal far and away beyond what previously had been deemed sufficient. Again, the modern trainer recognizes the value of coaching on the job. Not only does he insist that the neophyte rehearse his interview in advance with the manager or supervisor and perhaps go over it again upon his return from the actual appointment, but he also realizes that coaching on the job is well nigh a necessity. Strictly speaking, coaching on the job means that the supervisor accompanies the agent into the field and permits him to make the entire presentation. In theory, the supervisor should not even step in to save the sale. This is advocated for two reasons, first because the agent may feel that had he been left alone he could have made the sale anyway and secondly, because, in order to save the sale, the supervisor may fall back upon ideas or techniques which are beyond the agent at the moment. Nevertheless, in practice the supervisor usually cannot resist the temptation to salvage the sale if possible. The main objective, however, is to go over in detail after the interview is over, the specific points where the agent was strong and the points where he was weak, the things he might have said, and, in general, his entire behavior in the presence of the prospect. Whether a sale is made or not, coaching on the job is very different from joint selling. It has been truly said that joint selling makes sales but coaching on the job makes salesmen.

Our survey of company educational programs would not be complete without reference to developments which have assumed major import-

ance during the past ten years and, in fact, some of which have come upon the scene only within the past two or three years. I refer to the fact that many companies use, as part of their educational programs, certain courses of instruction prepared by commercial publishers in the field of insurance. Thus, elementary, intermediate and advanced courses are available and companies sometimes use these courses under their own names or make them available on special terms to their agents. In addition, various tax and business insurance services are made available and many times are partly subsidized by the companies for their agents. Of late years, the Chartered Life Underwriter Study Program has assumed ever growing importance and most companies offer specific inducements to their properly qualified agents to pursue this work — inducements such as refunds of the registration fee, examination fees, etc. Then, about three years ago the first pilot course of the Life Underwriter Training Council (L.U.T.C.) was offered. This is an institutional course at the intermediate level and is intended for the agent who has finished his company basic course and has had at least one year of satisfactory experience in the business. It precedss the highly professional study of the Chartered Life Underwriter Study Program, and is offered in two sections: Part I deals with such subjects as an analysis of life insurance, the various methods of presentation, and a detailed study of the market for life insurance together with a consideration of the problem of the agent as a business man, etc. Part II is being released for the first time this year on a national basis and concerns itself with the more advanced phases of business insurance, mass selling, and estate analysis.

Having examined in some detail what the companies are now doing by way of educational programs and having noted the methods which they use, I believe your reaction is similar to mine — that they have done a magnificient job. To comment upon the effectiveness of these educational programs, is almost as though we were to coach a student with an average grade of 95 to raise his mark to 96 or 97. And yet I am sure that all of us realize that while all the plans and methods we have enumerated are being used in the aggregate, they are not being used to the same extent nor with the same degree of effectiveness by all companies.

Against the background of the points we have thus far considered and keeping in mind that our primary concern is the training of new agents on the one hand and the training, re-training and continual training of established agents on the other, let us look at several criteria by which we may evaluate and appraise the effectiveness and over-all efficiency of company training programs. Further, in setting up these criteria let us use the generally accepted standards by which college and university educational programs are appraised, with the thought in mind that perhaps there will be sufficient correlation to enable us to appraise the various phases of company educational procedure. We frankly recognize, of course, that there is no unnaminity of opinion as to content or methodology with respect to university training and we all believe that improvements should and can be made in university instruction. One is reminded of the story of the examining committee in reporting on a certain college in which the following statement appeared — "This

college has many rooms, including a large room for improvement." But if we in the academic world cheerfully recognize the need for improvement, perhaps our friends in home office circles will be as ready to view the matter with receptive minds and from these criteria can evaluate the various phases of their problem.

Perhaps the first criterion of an educational program is the qualifications of its instructors. In college and university circles such qualifications as apprenticeship in teaching, teachers' diplomas and certificates, advanced degrees, etc., are recognized as desirable if not essential for responsible teaching positions. There are exceptions of course, but usually university authorities are very careful to insist that in lieu of the qualifications mentioned, the actual experience of the individual shall be such as to constitute an acceptable equivalent.

It has long been a conviction of mine that the qualities which make for outstanding teaching ability are not necessarily the qualities which make for conspicuous success in salesmanship; and further, that both, in turn differ from the qualities necessary for a successful manager or general agent. Obviously an instructor should be an acceptable salesman because it is with the subject matter of life insurance selling that he is to deal. But if one qualification for the position as a company educational director is a high degree of sales success with little or no demonstrated ability or training in the field of the teacher, then it is difficult for him to measure up to the fullest opportunities of his position.

A second criterion may be summed up in the limitations and restrictions placed upon the instructor. In college and university circles, perhaps the most jealously guarded prerogative is the concept of academic freedom. This may be defined as the privilege, not to say the responsibility of the instructor to give expression to any idea which he honestly believes to be true without fear of being "muzzeled" by those in authority or by those in the outside world who may take exception to his point of view. Let me hasten to add that this academic freedom or liberty is in no sense synonymous with license and among responsible educators is always characterized by a sense of fitness and good taste together with a proper appreciation of time and place. Nevertheless, it does bring about a situation unknown in the business world. In business, if a subordinate disagrees in a matter of policy with his superior, he can either forget about this difference or he can look for another connection. But in the academic world, if one man should agree completely with another, they just do not have independent minds and the rule rather than the exception is that individuals on a faculty can disagree violently with one another as to their professional points of view and yet each has the utmost respect for the other and even for the possible validity the opposing points of view.

Not so in the business world! It is almost axiomatic that when, in the course of his business career, a man reaches a position where the sign painter is summoned to paint on his office door under his name the magic words, "Vice-President," then, by some miracle not even remotely understood but almost universally recognized, the mantle of infallibility descends upon the shoulders of the man who has thus "arrived" and from then on, what he says "goes," because he firmly believes that what he

directs must *ipso facto* be right. Perhaps the insurance business is no worse in this respect than any other business, but it is doubtful if it is any better. I shall not labor the point nor would I give it undue emphasis but I would point out that to the extent that a qualified instructor must conduct his work, not in accordance with his own professional training and judgment but along the lines laid down by a superior who has not had the advantage of such training and experience —to that extent this particular criterion can perhaps point the way to an improvement.

A third criterion might well be the prerequisites for instruction, or, in other words, the entrance requirements. Just as in the academic world students are required to meet certain standards before being admitted to the university and are required to have certain courses as prerequisites for the pursuit of other courses of study, so, in life insurance, the matter or prerequisites on the part of those entering the business, assumes great importance. It goes without saying that the selection procedure must be such as to provide agents who have the proper background and the necessary attitudes and abilities to be successful in life underwriting. Just as a tool-maker must have suitable material with which to work else the finished product will be substandard, so must the instructor have the proper raw material to mold into a successful salesman. Great stress is being laid upon this point today but there are conflicting factors involved and the final result is often times not as satisfactory as it might be. For example, managers are trained meticulously in the methods and objectives of selecting the finest possible candidates for potential agents. But it is no secret that in many cases the pressure from the home office is almost overwhelming on him to recruit. It is not unknown for the manager to be told in unmistakable terms to recruit so many men this year "or else." Where this pressure, expressed or implied, is at all prevalent, the work of the instructor is necessarily discounted in advance. The result is that to the extent that the material with which he must work is substandard, the effectiveness both of the instructor and of the educational program are necessarily less satisfactory than would otherwise be true.

A fourth criterion might be the ultimate goal or purpose of the company educational programs. A perennial debate, which doubtless can never be resolved, rages in the academic world and its counterpart is found in the subject of our discussion. In the academic world the proponents of cultural education are opposed to the advocates of vocational education. Even in professional schools such as medicine and law there is the question of emphasis upon research as contrasted to stressing the practice of medicine and often we hear the charge that the law student is prepared to handle the duties of a supreme court justice but is not so well prepared to make a living as a practicing attorney. In the problem at hand the question arises as to whether the main objective is to "put the agent into production" as soon as possible so he can make a living, or whether the main emphasis should be put upon the professional concept of preparing him to be a competent life underwriter. Obviously those who advocate the so-called practical approach of putting him into production at the earliest possible moment, of helping him to "earn while he learns," feel that he will thus become a competent underwriter event-

ually, whereas those who insist upon a more fundamental training, believe that this is, in fact, the shortest and most satisfactory method. As a practical matter, perhaps a middle course can be charted. This criterion must of necessity be considered in connection with the one which follows.

The fifth criterion then, is the length and intensity of the course of instruction and training. So far as I can discover, there is no uniformity in the length of company educational programs. In some cases, an agent is expected to study for a week or 10 days or two weeks in the office of the local agency and thereafter, his training is more or less spasmodic. In other cases, following this basic course and after demonstrating his proficiency by writing a certain amount of business, he then attends a home office or regional school ranging from three or four or five days to two weeks and in some cases longer. In a few instances he may return to this school in three or six months for a week or so. In those companies writing accident and health insurance and specializing somewhat in group coverages as well as life insurance itself, there are instances where the home office course may go for four or five or six weeks or even longer and in some cases the agents are intentionally brought in with little or no previous study or experience in the local agency. I think it is only fair to raise the question as to whether two or three or four weeks of study and instruction are sufficient to qualify an agent for professional service.

Before passing on to the final criterion, I should like to interpolate at this point my observation that, to an ever increasing degree, the raw material supplied to the insurance companies can best come from our schools of business administration and from our liberal arts colleges where the students have been trained in the fundamentals of business and insurance. It is not our province to give them the specialized training for individual vocations but it should be remembered that such courses of study as we are prepared to offer, constitute an additional screening device for those who will be selected and I bespeak the cooperation of those in the top administrative positions of our companies to make possible the utilization of our product to the mutual advantage of themselves and us and to the great benefit of the insuring public.

And now the sixth and final criterion—the over-all effectiveness of the company educational programs. Perhaps one of the best ways to evaluate this is to ask ourselves the question, "How does the end product, the agent himself, measure up to his responsibilities and privileges?"

At the annual meeting of The Life Insurance Agency Management Association held in Quebec last November, the president, Mr. George Dunbar, Superintendent of Agencies of the Mutual Life Insurance Company of Canada was quoted in the R & R Weekly News Review Digest of November 19, 1949 as follows: "How many times," Mr. Dunbar asked, "have you read an inurance company ad or booklet which carries: 'See your X.Y.Z. representative. He is trained to discuss your problems'. *Is he?* I have pondered about that in my own company, thinking about different members of the field force who couldn't do the job we said

they could. It is up to agency officers to make good on these inferred promises to new agents and to prospects, just as our companies make good on their contracts to policyowners. We must continue to pursue aggressively more thorough training programs at induction if we are to equip our new men to tell their prospects intelligently the whole insurance story. And only when they are thus equipped can they be successful underwriters. Only then can they live up to our ads, adequately service our policyowners, and make a decent living for themselves."

May I conclude my observations by saying that it seems to me that Mr. Dunbar strikes at the very heart of our common problem. All of us in one way or another have asked ourselves that question and it must continually confront us as well as company officials. Because, however important the various criteria mentioned above may be, they are all summed upin that all inclusive criterian — to what extent are life insurance agents able to "adequately service our policyholders and make a decent living for themselves?" It is our mutual resonsibility and privilege to make the answer to that question increasingly satisfactory, not only to us in teaching and to those in the business itself, but of even greater importance, to the insuring public.

The University Teacher Looks at Company Educational Programs

Property and Casualty Insurance

by

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An exhaustive survey of the "Education and Training Activities of Insurance Companies and Associations" was completed just two years ago. The survey was made for the Insurance Institute of America under the auspices of the Wharton School of Finance and Commerce of the University of Pennsylvania, with a fellow-member of our association, Mr. Richard Kip, as Director. Its findings are a picture of what a university teacher saw when he looked at company educational and training programs at that time. Although the title of this paper is limited to "educational" programs, its purpose is to examine the same general picture today and the findings of the survey will be used as a basis for the description of the picture.

It is recognized that education and training are not synonymous, but that education is the broader term and that training is but a limited aspect of education. As expressed by Dr. James H. Greene in *Organized Training in Business*, "education may be a process of acquiring skills, attitudes and knowledge to aid in meeting life situations which cannot be determined specifically in advance. In the case of training, business situations must be known in advance and the training devised to meet them specifically." It is difficult to tell, and for our purposes, futile to explore precisely where education leaves off and training begins. At the extremes there is no problem. Insurance companies have not undertaken, nor should they undertake, purely educational programs affording instruction in such things as literature, government or economics. On the other hand, we are not concerned with the training of file clerks, stenographers or general clerical personnel. The problems involved in those spheres are not in the least peculiar to insurance. Our attention may be concentrated upon those programs which are especially pertinent to insurance because of its complex and technical nature. They involve instruction in insurance or some limited phase of it. They may emphasize not only *how* insurance functions but *why* it functions as it does, on the theory that knowing *why* helps in knowing *how*. The instruction may or may not be designed to meet business situations known in advance. Hence, educational programs in property and casualty insurance may possess both educational and training characteristics.

Formal educational and training programs in industry date back to the 1890's when a number of corporation schools were established. Prior to that time little attention had been given to employee education, and training was both informal and decentralized. In property and casualty insurance formal educational programs are of relatively recent origin,

although a few programs have come of age. Of the sixty-six companies reporting formal programs in 1946, one company had started its program, consisting of a single course for its field supervisory personnel, as early as 1903. It was not until 1922 that another company inaugurated a program, again consisting of a single course, and only five other companies initiated formal educational efforts during the remainder of the 1920's. By 1940 only sixteen companies were engaged in any formal educational activities, and they were offering a total of thirty-seven courses. This represents only 24 percent of the sixty-six companies conducting courses and only 23 per cent of the 159 courses offered in 1946. These numbers were not appreciably increased prior to our entry into the war in December, 1941 and, as might be expected, there was little educational activity among the companies during the war years. Immediately following the close of the war there was a considerable expansion in the number of courses offered by companies already having programs and a great increase in the number of companies installing programs. In 1945 and 1946 at least twenty-eight companies began educational work for the first time and at least seventy-six new courses were started. The incentives for such activity at that time were great and pressing. The wartime shortage of personnel was being relieved, but quick relief required new measures to train effectively the new personnel entering the business and to bring up-to-date returning veterans who had lost contact with the business during their period of service. Also, the G I Bill afforded benefits to G Is in training programs approved by the Veterans' Administration,and the programs of the insurance companies generally were tailored to fulfill the requirements under the bill.

The question might be asked: will these war-born programs last, or will they be abandoned as the immediate incentives for their creation disappear? The answer to the question can be forecast today with fair assurance of accuracy, since the immediate incentives are rapidly passing from the picture. War-created shortages of personnel have been relieved, veterans have been retrained, and G I benefits are no longer an important factor. Few, if any, programs have been abandoned, whereas a number have been expanded. Formal educational and training activities by the property and casualty insurance companies appear to be here to stay. The same needs and objectives exist today in the industry as a whole, as prompted some of the companies to embark upon their programs in the pre-war years. In fact, the needs are greater now than then because of the public's increased confidence in and knowledge of insurance and its demand for a high quality of service, and also because of the fundamental changes which have been made in insurance legislation and regulation. Experience alone is a too slow and too expensive teacher. Education can speed up the learning process, avoid the mistakes of experience, and provide the foundation upon which experience can build efficiently. Long-run objectives seem to be taking the place of the immediate and temporary objectives of post-war educational programs. That this is so is evidenced by the fact that programs were continued through a sellers' market when most companies had a serious capacity problem. Education in insurance has become a practical necessity for all inexperienced or inadequately experienced personnel

except routine clerical employees, and to a limited extent it may be desirable even for this group.

Since the objectives of educational programs are so important in determining the permanency or impermanency of the programs, it would be well to consider these objectives. Unless they are clearly formulated and kept in mind for each educational program, plans will be lacking in definiteness and unity. Knowledge of objectives is essential also in determining the structure of a program, what is to be taught, how it is to be taught, and to whom it is to be taught.

When a new employee enters the employment of a company there is a need for some method of fitting the employee into the organization. This involves developing in the employee a feeling of confidence in the company and an appreciation of the purposes and policies of the organization, the structure of the organization, the employee's place in it and how his particular work contributes to the attainment of the purposes of the organization. More specifically, the need is to create an interest on the part of the employee in his work so that he may be more contented in it, work harmoniously with other employees, and serve his employer for a longer term. More than training in the job is required to accomplish this broad objective or these more specific objectives.

Another basic objective in the education of new employees may be to fit them into their particular positions. For other than routine clerical employees this too requires more than mere training in the procedures and techniques of the work. It involves a more thorough understanding of the principles of insurance and the application of these principles in the particular work of the employee. Positions in which the exercise of judgment is a factor, and there are many such in insurance, require a breadth of knowledge so that judgment may be exercised efficiently. Furthermore, many of these positions are of a unique and technical nature such that fitness for the position requires an understanding not only of how they are unique but also why they are unique. A broad knowledge of the business as well as an intimate knowledge of the subjects directly related to such positions is necessary.

Another broad objective of insurance company educational programs is to prepare for promotion to higher level positions those employees who have shown promise in their present work. It is generally from today's employees that tomorrow's supervisors and executives come. Upgrading of employees is considered the most satisfactory method of filling higher level positions if needs can be forecast and if employees within the organization can be prepared for promotion as vacancies arise. There is a danger, however, if education for this objective is not conducted with careful discrimination. Preparing more employees for advanced positions than can be absorbed in such positions within a reasonable time may cause employees to become dissatisfied with their present positions and generate ill will toward the company. Instead of experiencing reduced turnover, the company will suffer from increased turnover, and that is where it most hurts, among the more promising employees.

A final broad objective in the educational plans of property and casualty insurance companies is to improve the quality of service given

to the public by their employees and representatives. Whether or not field personnel in insurance can attain professional status and recognition, it will be agreed that efforts to improve the quality of performance in that direction are desirable. Here indeed we are dealing with "life situations which cannot be determined specifically in advance," the area in which education rather than training functions. The field personnel in insurance are called upon to give personal and business advice in highly complex and divergent situations. On the basis of such advice decisions of extreme importance are reached. Acknowledment by an insurance company that a person is its representative to provide its service and give such important advice to the public implies that the person possesses adequate knowledge on which to base his advice and would seem to impose on the company an obligation to see that he is properly qualified. However, a complicating factor in this situation is found in the fact that the knowledge necessary to render high quality service is not limited to a knowledge of insurance. Other important areas of thought in which field agents should be competent are exemplified in the curriculum of the American Institute for Property and Liability Underwriters. This includes commercial law, economics and finance, to mention but a few. It is not a responsibility of the insurance companies to provide educational facilities for instruction in these related areas. This can and should be accomplished through existing institutions of higher learning. As to instruction in insurance, it is becoming available more and more in our colleges and universities, but these institutions can not be expected to provide courses in sufficient detail to meet the needs of the insurance industry for completely trained personnel. In fact, much of the knowledge of insurance practices and procedures which is so essential to field representatives has no proper place in college courses. Furthermore, many aspiring to careers in insurance selling will not have access to college courses. It is a function of the insurance industry to provide adequate facilities for instruction in insurance, at least in its more technical phases. But here the situation in property and casualty insurance is exceptional. While field supervisory personnel are employees of a particular insurance company, field agents customarily represent several insurance companies and brokers as such represent none at all. Several mutual insurers employ salesmen under contracts which make them employees of the particular company alone, but this is the exception rather than the rule even among the mutuals. As a result the responsibility for proper qualification of field agents is at best a divided responsibility. Just where within the industry it should rest is a moot question. Agents have argued that they are independent contractors. In this sense the obligation to obtain a sufficient body of insurance knowledge is their own. This no doubt is the basis on which the educational program of the National Association of Insurance Agents was hauched before the war. But even though this program exists, the insurance companies are not free of responsibility. It may be that this responsibility may be discharged better by cooperation among the companies than by individual activities. Nevertheless, at least twenty-eight companies or company groups have educational facilities specifically designed for their agents, approximately half of which were

inaugurated before the war. These companies now offer at least forty-five courses for this purpose.

A formal educational program is not the only method by which a property or casualty insurance company may attempt to fulfill the foregoing objectives. The extent to which this method is used was examined in the survey of 1947. The data which follows is in different form but has been derived from the figures reported in the survey. Slightly less than 11 per cent of all companies writing $100,000 or more of net premiums in 1945 had formal educational or training programs. This is not as poor as it seems since it is the many small companies which lack programs of this type. Only 1.1 per cent of the large number of companies with net premium writings between $100,000 and $1,000,000 had educational programs, whereas almost 75 per cent of the companies writing $25,000,000 or more of net premiums had such programs. Between these extremes the proportions were 8.5 per cent for companies writing $1,000,000 to $5,000,000 net premiums, 15.6 per cent for those writing $5,000,000 to $10,000,000, and 44.1 per cent for those writing $10,000,000 to $25,000,000. The disturbing fact is that one-fourth of the thirty-one largest companies and more than one-half of the thirty-nine next largest companies lack educational programs.

It is expensive to install and administer properly a centralized educational program. The smaller companies cannot afford it but must rely upon decentralized and informal methods unless they are located where insurance courses are available through other organizations. That this latter plan is not generally employed can be seen from the fact that only thirty-seven companies without educational programs indicated that they assisted employees in any way in taking courses offered by outside organizations. This may be due to the fact that many of the smaller companies are located where outside educational facilities are not available. In this circumstance, unless education and training are on a "hit-or-miss" basis, allowing employees to pick up knowledge and misinformation at random, it is a function of all supervisory personnel in a company. It has been said that if one were to list all the typical operations of management, nine out of ten of them would fall under the heading of education and training. For this method of educating through supervisors alone to produce satisfactory results, however, management must consciously plan it, let supervisors know that this is one of their important functions, and teach supervisors how to teach.

The fact that the largest companies and some of medium size are located where outside educational facilities are available may account for the fact that several of the largest companies and a number of the companies of medium size do not have their own educational programs. In New York City, for example, there are a number of institutions offering courses in insurance which meet at times convenient for company personnel located within reasonable commuting distance. Considering only the Insurance Society of New York, it describes sixty-nine different courses in its 1949-50 announcement. Of these, ten pertain to life insurance, twelve to subjects other than insurance, and the remaining forty-seven to general principles, property insurance and casualty insurance.

This is a far more ambitious program than could be developed by any company for itself. Furnishing assistance to employees in taking an appropriate selection of courses in the Insurance Society may relieve a company of establishing a broad program of its own. But there is still a need for education or training of employees in the policies and practices of the particular company. If this is assigned as a function of supervisors, the needs of these companies are the same as those of the small companies: to plan the program consciously, to let supervisors know that this is their function and to teach them how to teach.

In industry where there has been a trend away from formal classroom teaching, toward decentralized teaching by supervisors, it has been found that centralized resonsibility in an educational director or some similar officer is as important as it was under centralized educational programs. There is no reason why this principle is not as important in insurance as in industry. The educational director should function to correlate the instruction of the different supervisors, to assist them in learning how to instruct effectively, to help them develop instructional material and aids to instruction, to cooperate with the personnel department and top management in discovering the company's educational and training needs and the means by which they can be met most efficiently, and to keep management constantly aware that the important objectives of educational programs are the long-run objectives which cannot be evaluated on the basis of immediate results. It is here that many companies appear to be most susceptible to criticism. They not only have no formal educational programs, but one suspects that they have no plans for meeting the need and little appreciation of the need for improvement in the quality of the personnel rendering such an important service to the public.

The formal educational programs of the property and casualty insurance companies which have such programs are lacking in homogeneity. Programs vary considerably in the purposes for which courses are provided, in the number of courses offered, in the length of courses for a given purpose, in the methods of instruction employed, in the textual material used and in the subject-matter covered. The needs of the companies are not sufficiently divergent to account for this degree of heterogeneity. While there is no one best plan and each program must be fitted to the peculiarities of the particular organizations for which it is intended, there is a possibility of improving existing programs and increasing their homogeneity. A natural method to accomplish this is through the exchange of experiences, opinions and ideas among those charged with responsibility for present programs. A step in this direction has been taken. Under the auspices of the Insurance Institute of America a conference of insurance company educational directors and their assistants was held in 1948 and a second in 1949. Over fifty conferees participated in the 1949 conference. These conferences lasted only one day, but a longer one is planned for 1950. As stated in the foreword of the 1949 conference report: "One of the purposes . . . is to accumulate data on tested and successful methods and procedures for the organization and conduct of classes in insurance education. New schools, of which the number is rapidly increasing, feel the need for such a manual. Older schools, with a record of accomplishment in certain branches of

student training, have shown their willingness to share their experiences with others." Movements of this sort are most encouraging, especially in view of the frankness with which problems have been discussed.

As to the purposes for which courses have been provided by the companies, in 1946 only six companies indicated the existence of orientation or indoctrination courses for new employees. Each company originated its course in the post-war period and one company developed two such courses. All of these courses were short in duration (under fifteen hours) because the need for extensive education of rank and file employees is not so great. Also, the classes were small in size because even the largest companies do not have a turnover rate so high that a large number of employees will require indoctrination at the same time. The small number of companies may be accounted for by three factors. One is that in most companies only one or two employees will be hired at a time and the problem of orientation does not lend itself to solution by class-room instruction. A second is that other methods than formal courses, such as the use of employee handbooks and training by supervisors, may be employed effectively for this purpose. A third is that most current textual material is more detailed and pitched to a more difficult level than is necessary for orientation purposes. This third factor will lose its importance since a text for this specific purpose has been prepared and is scheduled for publication this month.

Courses to prepare employees for particular positions, other than field agent and field supervisory positions, were offered by thirty-seven companies and included seventy-eight courses. These courses may be considered as designed for another objective as well, that of preparing employees for promotion. Of these courses twenty-three were in insurance fundamentals, review courses for veterans being included in this category, and fifty-five were for more specific or more specialized positions. These special courses ranged from mere training courses for statistical tabulator operators to those for such judgment-using positions as underwriters and supervisors. Others were offered for accountants and statisticians, claims adjusters, claims examiners, payroll auditors and many others. The largest number for any one group was that for underwriters, of which there were fifteen, and the next largest number was eight for claims adjusters. It is in this area that the insurance companies have the greatest direct responsibility for providing adequate educational facilities for their employees and it is here that they can rely least upon outside educational institutions. But only thirty-seven companies have such programs, an donl yamong those companies with 2,000 or more employees in non-sales capacities do as many as half of the companies provide such course instruction. ....It seems that all of the small companies and the overwhelming majority of those of medium size depend upon informal "on the job" training to fit employees for technical positions and to provide for promotions. The economies of formal instruction apparently are not realized.

As to improving the quality of field representatives, more companies are interested but, as could be expected, fewer courses are offered since there is not such a wide variety of specialized positions necessitating separate courses. Forty-seven companies offered seventy-four courses

in this area. Of these courses, seventeen are conducted on a correspondence basis and fifty-seven are in the form of class-room instruction. Twenty-eight of the latter are for supervisory personnel and twenty-nine for agents. The question of responsibility for the education of field agents was discussed before. It is interesting to note, however, that since correspondence courses are primarily for agents, more courses are available from more companies for field agents than are available for direct company employees. Another development in the past few years has been the organization of groups and the provision of facilities by companies for the preparation of their employees for the C. P. C. U. examinations. Three years ago there were only two or three groups under company auspices, whereas now there are at least twelve companies which have organized study groups. One group is functioning under cooperative facilities furnished by four companies.

An analysis was made of the methods of instruction followed in the courses which the companies were offering. Various combinations of lectures, discussions, conferences, reading, joint work and examinations were found. But the striking thing is the extent to which the lecture method is used. In every orientation and insurance principles course for which methods of instruction were determinable, the lecture method was used for over 40 per cent of the total hours involved in the course. Even in the specialized courses for non-sales positions the lecture method was used in 80 per cent of the courses, and for those indicating the extent of its use, 70 per cent used it for over 40 per cent of the total hours. In courses for sales personnel, excluding correspondence courses, the situation was much the same. Lectures were used in 90 percent of the courses and in almost 80 per cent of those indicating the extent of its use it was used for more than 40 per cent of the class hours. The class discussion method was found in almost the same proportion of courses but its use was limited to a much smaller proportion of the total class hours. As a general proposition the reverse should be true. The lecture plan is economical when classes are large and it is well adapted to presenting in orderly form material selected and combined from many diversified sources. But it is weak in fulfilling one of the principal functions of education, that is, developing the capacity of individuals to think independently, accurately and thoroughly and to express their thoughts clearly and concisely. The student is a passive listener instead of an active participant in the learning process. For these reasons the lecture method is not a particularly efficient method of instruction and should be relied upon to a minimum. The limited amount of time available for the education of employees can be more effectively used by methods which require the active participation of the learner, but this makes necessary the limitation of classes to groups of small size.

Insurance company courses use textual materials of many kinds. The most important in order of relative frequency of use are company prepared materials in printed or mimeographed form, standard texts, policies and forms, and rating and sales manuals. It is not surprising that materials other than standard texts should be used in courses designed for employees who must be familiar with the technicalities of insurance as well as the principles, but it is surprising that standard texts are so little used to develop the principles.

With reference to the subject-matter taught, the outlines of a number of courses were examined. Unfortunately they disclose little as to the nature of the content of the courses. It is evident that the functional approach is little used and that the line-by-line approach is frequently used. Where instruction is given to furnish technical knowledge and general principles it is pedagogically sound to instruct first in the factual information necessary to deal with specific situations and then develop the general principles which have been applied. It is difficult for men with limited education to learn general principles first and then to apply those principles to specific situations. No attempt will be made to outline a typical course for any purpose for which insurance companies give courses. It is questionable whether there is any such thing as a typical course outline. Furthermore, a description of the content of a course may be a most misleading index of the nature of the course since the latter depends so much upon the emphasis given each subject and different phases of each subject, upon the teaching methods employed for the different subjects, and upon the background and attitude of the particular teacher. It is extremely difficult for an outsider to evaluate a coure since there are so many intangibles involved. It is impossible to tell to what extent memory is being relied upon or to what extent reasoning or judgment is required.

Insurance companies have come a long way in recent years in the development of their educational programs. There is a long way still ahead. The experiences of the past few years can be used as a basis for improvment and progress. The willingness of companies to share their experiences can make this improvement and progress much easier.

My Reaction to Property and Casualty Insurance Education on the University Level

by

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Various phases of insurance education on the college level and company educational programs have been discussed at annual meetings of this Association. Those of us on today's panel have the advantage of the opinions expressed at previous meetings but our problem of contributing some original ideas on the correlation of the two types of insurance educational programs has at the same time been made more difficult.

My observations of Property and Casualty Insurance Education on the University Level will relate principally to the following:

1. The distinction between insurance education and insurance training and some of the difficulties in assigning insurance education exclusively to the universities and insurance training exclusively to the industry;
2. Some of the strong and weak points of university insurance educational programs disclosed by the work of university graduates in company training programs;
3. Some comments concerning university insurance educational programs made in retrospect by young men;
4. A few suggestions for the improvement of university insurance courses based on those observations.

There is a distinction between education for insurance and training for insurance. This distinction was very well expressed by Drs. Loman and McCahan in their joint paper on the subject "College Education for Insurance—A Minimum Program" read at the annual meeting of this Association in Philadelphia in January, 1947. Education relates to the broader aspects of insurance, including courses in Principles of Economics, Government, Business Law, Finance, Accounting, Marketing, English Composition and other subjects offered by Schools of Business Administration or Colleges of Liberal Arts, which are basic for other fields of business as well as insurance. Training is directed toward learning practices as well as principles and the development of skills in applying principles and practices to specific situations. Unquestionably, colleges and universities are in a better position because of their physical facilities, trained teaching, staff and established courses, to offer insurance education. It is equally obvious that it is the function and responsibility of the insurance industry to supply the training.

Although that distinction between insurance education and training is acceptable in general principle, there is an area of overlapping in the two programs. A twilight zone exists where education and training blend and the subject matter in that zone might just as conveniently be

delegated to college or industry. A more serious handicap than the twilight zone to making a definite demarcation in the assignment of insurance education to colleges and insurance training to industry is the fact that many of the young men entering the insurance business have not had the advantages of college insurance courses and in some instances they have not completed basic courses in related fields. Many of the young men do not make a decision as to their life work until they have progressed so far along a certain course of study that they cannot very well change and be graduated with their class. Too frequently the uncertainty continues until a decision must be made between two or more offers from prospective employers in entirely different types of business. That condition will continue, but vocational counseling should aid in reducing the seriousness of the problem. There, however, seem to be more frequent calls on insurance men, educational directors in particular, from young men or their fathers for advice as to what courses in college should be selected in preparation for a career in the property and casualty insurance business. In those instances, it is an opportunity for us to give some assistance or direct them to those who can offer sound advice.

In company employment programs, the type of educational background of the applicant has some influence on selection of applicants. If the qualifications of two applicants for a position are similar but one has followed in college a program of courses on insurance principles and realted subjects and the other has not, the former will probably be selected.

A change is taking place in the attitude of industry that anything learned about insurance in college courses should be forgotten immediately upon being employed. The personal qualification of the men are still considered primarily important in selecting applicants. The further use of aptitude tests by colleges and the industry as a guide in determining and evaluating those qualifications will undoubtedly improve that procurement process.

The fact that so many young men entering the Property and Casualty field have not taken advantage of insurance courses in colleges places upon the industry the responsibility of assuming a part of the educational function. Nevertheless, Company training programs are primarily directed at giving instruction in policy coverages, underwriting rules, rates and their application to different types of risks and sales plans and techniques. The principles of insurance in such a training program are taught incidentally to other subject matter. For instance, the principle of indemnity may be developed and illustrated in connection with a discussion of such terms as "actual cash value," "cost to repair or replace," and "subrogation" in the Standard Fire policy. The desire of the Company or agency manager to have a young man perform certain duties as soon as possible naturally results in placing the emphasis on "ways and means." Likewise, the young man thinking in terms of his salary check or commissions received will demand instruction on the "know how" rather than general principles.

While the insurance industry has found it necessary to undertake insurance education because of the number entering the business without

such an educational background, colleges and universities have cooperated wholeheartedly with the insurance industry in assisting with the training function for which the industry has failed to provide adequate facilities. This cooperation has largely been through non-credit courses offered by the extension or evening divisions and insurance conferences or seminars for groups of agents. This takes up some of the slack resulting from inadequate training facilities in segments of the property and casualty industry. A very notable instance of university cooperation with industry in insurance education and the establishment of professional standards is the C.P.C.U. movement. The rapid progress that has been made in a comparatively short period of time is possible through the aid given by numerous educational institutions in offering their classroom and teaching facilities to classes and groups preparing for the C.P.C.U. examinations.

My reactions to Property and Casualty Insurance Education on the university level have resulted largely from observing young men with such an educational background participating in company training programs and comparing their progress with that of others. The basis for my observations may not be sufficiently broad for drawing accurate conclusions but the individuals observed seem to constitute a representative group of men including not only those training for positions with companies but also those associated with agencies.

As is to be expected, those having the university educational background in related business subjects generally surpass those lacking it in certain phases of the company training activities. Their knowledge of business fundamentals enables them to grasp more quickly the need for insurance protection and its application to various conditions. For instance, their knowledge of accounting principles proves very helpful in understanding the need for Business Interruption Insurance and analyzing a risk's requirements for such coverage. Likewise, a knowledge of accounting is invaluable to one engaged in Surety underwriting, particularly Contract Bonds, because such an underwriter must be able to analyze contractors' financial statements. Understanding the liability of bailees and common carriers proves helpful in learning the details of certain inland marine coverages. I could cite other instances but those mentioned illustrate the value of having certain basic information. A course in accounting principles or business law as such has no place in company training programs for fieldmen or agents. Only fragmentary bits of such information that may be related to the immediate subject are given. Consequently, it is largely up to the individual to fill as best as he can such gaps in his educational background.

University courses in insurance are difficult to evaluate by observing men in a company training program. Some have had only an insurance survey course, whereas others have had the advantages of an insurance educational program exceeding the minimum suggested by Drs. Loman and McCahan. The human element also confuses the picture and that is illustrated by the case of two young men whom I observed in training for field or special agency work. Both were graduated from the same university at the same time, attended the same basic and insurance courses and had approximately the same scholastic record. Yet the one made an outstanding record in the training program

and the other an under-average record. The former possessed a capacity to visualize a risk's exposures to loss and to select appropriate insurance treatment, which capacity the latter did not possess to the same degree.

University courses in property and casualty insurance do not provide those attending them an adequate knowledge of the basic features of policy contracts. I am not referring to details which may vary by territory or by carrier which should be presented in training programs. Perhaps the condition in part is a result of following texts entirely or, if supplemented by sample policies, by examining the policy language and interpreting it without first presenting the reasons for the benefit and limitation clauses. An illustration will clarify my meaning. If the approach to Automobile Insurance, for example, is made by citing an automobile accident case involving damage to property and bodily injury to persons with all the possible resulting problems such as writs of attachment, investigation of the accident, cost of repairs, claims for damages, medical costs, suits, litigation and other costs, and financial responsibility laws that might confront the automobile owners or operators without insurance, the student is more likely to understand and remember the various features of the contract because he has identified them with specific needs.

What are some of the comments made by men concerning their university insurance programs in retrospect after completing company training programs and after gaining some experience in the business? Many have wished that they had had more insurance courses in college. That is particularly true of those who had only insurance survey courses, but others who had gone far beyond that felt that more advanced courses in Property and Casualty insurance would have been to their advantage. They indicated there had been no opportunity to pursue such courses along with required academic subjects during the four years. This situation in part is probably due to delay by students in planning their college insurance programs. If Property and Casualty companies were to follow the lead of some other industries in recruiting college men by indicating a desire for a continuous flow of personnel, the colleges could perhaps cooperate to select men at the end of the second year of college and direct their work more definitely toward the insurance industry's need.

The more recent graduates speak very highly of the activities of the Insurance Societies organized at many of the colleges and universities. The regular meetings afford opportunities to hear men from agencies and companies discuss insurance selling, underwriting, loss adjusting, engineering and related subjects. Perhaps the most valuable feature of such meetings are the question and answer periods after the talks. The Insurance Society of one university arranged a program which proved very interesting and enlightening to its members. Three recent graduates and former members reported on their experiences in company training programs in the life, casualty and property insurance fields and answered some very searching questions concerning different phases of the business as they observed them.

My suggestions concerning university Property and Casualty insur-

ance courses relate to the most frequently heard criticism that they are too abstract and not sufficiently correlated with the operations of the business.

University teachers of insurance have the problem of obtaining material for their classes and for their own personal use to supplement the textbooks and the usual reference sources. The majority of companies are glad to furnish for distribution to classes specimen copies of policies. An alaysis of representative policy contracts along with a study of the text assignments makes the subject more realistic and gives some experience in policy reading and analysis that should prove helpful whether the student enters the insurance business or is interested as a potential buyer or user of insurance. In addition, many of the companies are in a position and, I believe, are willing to supply insurance teachers a set of their training course materials, insurance surveys, and cases for case study. In most instances, requests for such information should be directed to the training or educational director. Specific requests of that nature can be much more easily accommodated than one from a student asking for copies of all policies written by the company for preparing a term paper on the subject of insurance.

"The Company Executive Looks at Life Insurance Instruction at The University Level"

by

C. B. Metzger, Second Vice President, The Equitable Life Assurance Society of the United States

Last year at the thirteenth annual meeting of your association at Cleveland, Ohio, Mr. H. G. Kenagy, Vice President of the Mutual Benefit Life Insurance Company spoke on this same subject. Mr. Kenagy had been chairman of the Committee on Relations with Colleges and Universities of the Life Insurance Agency Management Association for a number of years. He is a Vice-Chairman of the Committee now and in my opinion is one of the best informed men on this subject in our business.

The Committee, officially representing the Agency Management Association, has consistently worked toward these goals:

1. Attracting promising young college men to the life insurance business at the time of graduation.
2. Their careful selection by the companies for the jobs they are ultimately to fill,—sales or administrative.
3. Their proper training by the companies.
4. A company plan of "maturing" on the job in the Home Office, the branch office or sales agency those interested in selling careers before putting them in the field as life insurance salesmen.
5. A salary plan of compensation during their training in the Home Office or elsewhere while they are receiving their training and are "growing up".

I am happy to report substantial progress toward some of these objectives and to express my personal point of view which is necessarily colored by the unique record of my own company in aggressively seeking young college men on a systematic basis and offering them a well defined course of study and indoctrination which is now almost thirty years old.

Let us review some of the points at your Meeting last year —I quote Mr. Kenagy:

1. "OUR COMMITTEE HAS BECOME FIRMLY CONVINCED THAT THE LIFE INSURANCE COMPANIES COULD PROFIT FROM A MUCH LARGER INFUSION OF COLLEGE TRAINED PEOPLE AND, IN A FORTHCOMING REPORT, IS URGING COMPANIES TO COMPETE WITH OTHER INDUSTRIES FOR OUR SHARE OF THE COLLEGE CROP."

Such a report entitled "Getting our Share of the Annual College Crop" was compiled by the Committee and published by the Agency Management Association in January 1949. Twenty-two hundred copies were distributed to member companies, people in colleges and other

interested persons. The purpose of this twenty-three page pamphlet was to awaken life insurance companies to the possibilities of getting young college graduates; to state the problem, the competition and the difficulties we face in so doing, and to offer a suggested procedure. An additional purpose was to indicate to college people, the good faith of the life insurance industry in desiring to correct its weakness in recruiting college men.

Let us look at some of the headings in the booklet:

WHAT OTHER BUSINESSES ARE DOING.
SHOULD OUR BUSINESS COMPETE FOR THE COLLEGE CROP?
WHAT WE MUST DO TO GET OUR SHARE OF THE COLLEGE CROP.
MEETING COMPETITION
OPPORTUNITY FOR ADVANCEMENT
RECORD OF PERFORMANCE
COOPERATION WITH COLLEGE OFFICIALS

A PROGRAM FOR BUILDING THE PRESTIGE OF OUR COMPANIES AND OUR BUSINESS

Three interesting points are developed in *this* section.

1. We must *sell selling.*
2. We should promote life insurance courses.

   To quote from the report:

   "The American College of Life Underwriters has been doing an excellent job of promoting instruction in life insurance in our colleges but there are still hundreds of colleges which offer no instruction of any kind on the subject, not even in economics courses. How can we expect that the life insurance business will have any standing with college men until it is adequately represented in the curriculum along with accounting, engineering and similar fields of endeavor?

   "Agency officers can do much to promote progress by discussing the matter with the deans of business schools which have little or no instruction in life insurance. Even though college finances are being strained these days just to carry along, there will usually be found a way to provide instruction in new subjects for which there is a demonstrated need.

   "It should be pointed out, however, that pressure from us for more courses in life insurance may very properly result in requests from college authorities that we assure an adequate number of openings for the students who become interested in life insurance as a result of campus instruction. Until our companies are willing to take on a definite quota of men each year, with a long range training and financing plan, we probably cannot urge too *strong* a program of campus preparation for life insurance as a career."
3. We must make friends and believers out of deans, placement and guidance officers and teachers.

   To implement this objective our committee of the Agency Management Association has invited your Association to appoint

a committee to meet with us to the end that we might exchange points of view very frankly and evolve a program of training your college men at the university level, which can be coordinated with a program of recruiting, training in our companies and placing men in positions for which they are best fitted. This necessarily must be a long range program for there are some life insurance companies which do not need or else do not recognize the need for injecting new blood as an investment in their organization,—whether in Home Office, branch office or sales field. However a few companies have done an outstanding job in this respect for many years and several of the largest ones are now experimenting with such a plan.

Now to Mr. Kenagy's second point. Again, I quote:

2. "WE ARE ADVOCATING EXPERIMENTS WITH SUMMER EMPLOYMENT OF UNDERGRADUATES WITH SCHOLARSHIPS AND INTERNSHIPS AND WITH SPECIAL PLANS FOR MATURING THOSE GRADUATES WHO GO INTO SALES WORK."

We have no record of the number of agencies or companies that employ young college men during their summer vacations, but you are probably familiar with the experiment at Butler Univeristy at which promising young men who want to go into the life insurance business are given employment in local agency offices along with their academic work. Under this plan they work fifteen to twenty hours a week in an Indianapolis Agency office. Their professors at Butler are kept fully informed of the type and quality of work they are doing.

This gives these young men a chance to get practical experience in a life insurance agency while at the same time studying about life insurance.

Selection of these men is made by their professors. Successful candidates are recommended to the Indianapolis General Agents and Managers Association which places them. Our company hired such a young man several years ago under this cooperative plan. Upon his graduation he chose to enter sales work, although eligible to continue in our Administrative Training Course. He has been doing nicely ever since. A few weeks ago we employed our second candidate under this plan.

It seems to me that the Butler Plan is superior in many respects to the summer employment plan but time does not permit a discussion of that subject here.

Mr. Kenagy's third point:

3. "AT PRESENT ONLY A FEW LIFE INSURANCE COMPANIES ARE RECRUITNG NEW PERSONNEL FROM CAMPUSES. STILL FEWER ARE SEEKING THE PRODUCT OF YOUR INSURANCE COURSES.

"Our business isn't sold on the value of collegiate instruction in insurance. That's due partly to our lack of knowledge of what instruction you are giving. We hear of the great spread of insurance instruction on our campuses; but we don't know what you are attempting to teach nor what your objectives are. If you expect us to provide

a market for the product of specialized vocational courses, you need an effective plan for keeping us fully informed."

Happily since this observation was made, the S. S. Huebner Foundation for Insurance Education has published Dr. McCahan's and Mr. Hamburg's comprehensive survey entitled "College and University Courses in Insurance and Related Subjects." We suspect that interested life insurance executives have been amazed to learn how many life insurance courses are already being offered at such an impressive number of colleges and universities.

Perhaps one of the most helpful things a Joint Committee of our two Associations could do at the outset would be to promote more productive use of this excellent work.

This naturally leads to a discussion of the types of courses that might be offered by colleges and universities to best serve the needs of the student. These might be divided into three general classes:

I. COURSES DESIGNED TO GIVE AN UNDERSTANDING OF THE PLACE OF LIFE INSURANCE IN OUR ECONOMY.

Last year Mr. Kenagy said, "It is becoming increasingly true that life insurance is the only means whereby most men can attain financial salvation for themselves and their dependents."

I would go on to point out that in the 90 years between 1843 and 1933, the generally accepted low mark of the late depression, life insurance in force in legal reserve companies grew to approximately $96,000,000,000. However, in the fifteen years since 1933 it more than doubled,—to over $202,000,000,000 at the end of 1948,—this in spite of all the propaganda and agitation for "security from the cradle to the grave." Apparently it is like a Gallup poll. People hear or say one thing and do another! Social insurance may hold blandishments but most Americans buy personal life insurance for the protection of their loved ones and for their own needs.

College or university teachers can do much to help young college men and women to get a personal and comprehensive picture of what life insurance can mean to them,—as students, as young business or professional people starting out in life after graduation, as young husbands or wives establishing new family units. They can be taught how life insurance will provide funds to continue the family unit in case of the death of one parent or the other, or the provision of funds for the education of children,—the use of life insurance even in modest business ventures — and last, but not least, how it may be used to provide funds for self retirement. This is by no means a complete list. It but suggests some practical uses of life insurance of which too many college graduates know little or nothing.

We feel that undergraduates should be taught the importance of life insurance investments to our national economy and the broad social implications of the tremendous funds flowing to the public every year in the form of life insurance benefits. In 1948 this amounted to $3,236,000,000. This year the amount will be more.

Few books on economics devote more than limited treatment to life insurance as an institution. Yet, the great majority of students,

both men and women, will ultimately become buyers of life insurance and all will be affected directly or indirectly by it.

The companies do not expect colleges or universities to do a sales promotion job for them, but they would welcome a better knowledge of life insurance on the part of the public, not to make the job of the life insurance salesman easier, but to enable the buyer to plan his own economic security better and to be able to pick out the right life insurance salesman when he comes along.

As long as twenty-five years ago Dr. Huebner pointed out that the day would come when the public would know more about life insurance than the life insurance agent—*unless he were trained!* He has been and is being better trained; consequently the more progressive companies welcome an ever increasingly informed public. It forces a minimum standard of training for all life insurance salesmen.

II. VOCATIONAL COURSES TO ASSIST THOSE ALREADY IN THE BUSINESS.

You are undoubtedly all very familiar with the excellent work which colleges and universities are doing in connection with the Chartered Life Underwriter program. An increasing number of institutions each year conduct courses which prepare those already in the business for the examinations for this coveted designation.

However, vocational courses should not stop there. In some parts of the country where local demand justifies it, there are courses for those employed in home or branch offices which prepare students for advancement. This type of course could be extended to more centers. Generally speaking, the initiative should come from local life insurance people, whether home offices, branch offices or sales agency, or a combination of all three groups, but insurance teachers can let it be known that they are willing to cooperate; formulate and teach such courses.

A general integration course in life insurance fundamentals and typical company organization and operation would be most helpful to those who have had training in, and perhaps are employed by life insurance companies in accounting, auditing, acturial, medical, legal or investment departments. Many of these people are experts in their own fields, but have only a vague idea of their company's operation as a whole. While this might be considered to be a job for the companies, few of them have the training staffs available, or able, to do the job

III. COURSES TO PREPARE STUDENTS FOR LIFE INSURANCE SELLING.

My own company might be considered an outstanding exception to the rule, in that it hires a substantial number of college men at the time of graduation — as salesmen, a technical men, as career men who are enrolled in our Administrative Training Course. For years we have had experience in handling such men under different plans of indoctrination and training.

Young men just out of college have been hired as life insurance salesmen, both under our regular commission contracts for salesmen,

as well as under special plans of compensation,—such as salary plus commission. In the first eleven months of this year, we hired

88 under regular commission contracts
44 under a salary plus commission arrangement

132 Total

Both plans involve a two year program of integrated classroom training, and training on the job.

Yet, based upon experience, we can expected a decidedly larger turnover of those under age 25 than in any other age group.

Unfortunately, time does not permit discussion of the reasons for this, but you may want to put the subject on some future program.

One very practical authority has put it this way:

"The normal clientele of young agents is young people, who have modest jobs at relatively low pay, who buy small policies, with low premiums, payable on a quarterly basis!"

He might have added that a young man could have an excellent sales record of volume and number of lives insured and yet be starving. For practical purposes we classify life insurance selling procedures into "policy," "package or single need" and programming sales.

It is realtively easy to train a young man to make "policy" sales, using a good organized sales presentation or even "single need sales." It is also easy to teach a man how to prospect for sales of these types, but when it comes to programming sales he has to know about men and their domestic, business and financial problems. He has to know a great deal about the technical aspects of our business as it relates to Optional Modes of Settlement and the problems of money management. Men and women of affairs hesitate to give confidential information to obviously untried young men, and by the same token are loathe to rely on their advice.

We hire young college men because the survivors have the largest "potential" for success as life underwriters, but in so doing we realize that we must make a substantial investment in money, time and effort to develop them into career life underwriters who can handle advanced phases of program selling. Furthermore, our Unit Managers, who are responsible for training them on the job, have a well defined training program and a definite supervisory system to follow.

The elements of these and similar systems might be used in college courses in life insurance selling but these would have to be augmented by company training programs when the college graduate is ready to start selling.

In May, 1949, the Agency Management Association published an attractive booklet entitled "Let's Look at Life Insurance — Careers for College Graduates." It seeks to guide two groups of people: those who guide college and university students in the choice of their life work, and the students themselves. Twenty-five hundred copies were distributed to member companies, colleges, universities and business schools.

We feel strongly that a good "growing up plan" is the essence of

attracting, holding and developing college graduates who want to make life insurance their career. Our Administrative Training Course was developed for this purpose almost thirty years ago and it has been in continuous operation since that time. Practically every year for the last thirty years we have hired fifteen to twenty outstanding college graduates from leading American colleges and universities. We are indebted to many men in this room for recommending good men to us. The plan has worked so well that in the last several years, we have hired about sixty-five new college men a year.

Our earlier emphasis was to secure and train men for administrative duties in our branch offices, yet it produced important by-products. Many of these men went on to other important jobs in the Company. For instance, there are sixty-nine graduates in the Home Office, among them four officers of our Society and 152 in important supervisory and administrative duties in branch offices in the field.

In addition, in recent years we have hired about twenty other college men a year for technical departments, but in the future more of these will be brought up through the Administrative Training Course.

With just a little change in our selection procedure, with a little more emphasis on sales training in the latter part of the course, we feel that we can secure a steady supply of career salesmen who will have received excellent training in college, in our Administrative Training Course and on the job under our Unit Manager's system.

One final observation: While the life insurance business is a colossal one from the standpoint of dollars, in many phases of its operation, it employs relatively few people in important supervisory, administrative and sales positions. While available figures indicate that there are something over 150,000 life insurance licenses issued, probably less than a third of those who hold them account for the bulk of the life insurance sales. The turnover of employees in important positions in the home office is not large and efforts are being made to reduce the turnover of salesmen. Consequently, we always should have in mind the number of able college trained men that the business can absorb.

In closing, may I offer a suggestion for your consideration which might be of considerable interest to teachers of economics and insurance subjects. I refer to the College Business Exchange Program of the Foundation for Economic Education under which teachers of economic subjects spend about six weeks during the summer with various firms, including life insurance companies. The program provides for necessary traveling expenses plus a modest weekly living allowance. Thus, the teachers get a first hand knowledge of the operations of a business. It is our hope that arrangements can be made for life insurance companies to accomodate an increasing number each summer. This will certainly benefit the university teacher, his students through the kind of courses he devises and teaches, the companies, and most *importantly*, their policyholders.

Discussion

by

Laurence E. Falls, Insurance Institute of America

Each of you who has heard the thoughtful papers delivered here this morning has, probably, formed definite opinions concerning parts of the viewpoints expressed by the speakers. You may feel that you would like to examine other statements and opinions more at your leisure, and square them against your own experience and thinking, before concluding that you agree in whole or in part, or that you disagree. I submit that neither agreement nor disagreement should determine, beyond argument, the validity of those statements, because we are dealing with education which has no defined limits, which is constantly changing, and with which no one man can have an all-inclusive experience.

Since I subscribed to that catholic approach to education in general and to insurance education in particular, I am somewhat abashed by the assignment given to me, to sum up and comment upon these papers. The modesty with which each of the speakers offered his viewpoint upon his subject is, I believe, the attitude of every conscientious worker in the field of education. More than forty years of seeking material and methods to promote education, and educational opportunity, at the head offices of insurance companies, and several years devoted, spasmodically, to lecturing and teaching in schools and universities, constitute my only qualification for today's task.

Toward improving the knowledge of insurance by personnel in the business we employ several words and expressions for which there are no generally accepted absolute definitions. We use "schooling," "education," "training," "indoctrination," and "orientation," and sometimes we include "learning by experience." As Mr. Ray Ringer says, these terms seem to have overlapping meanings, and I have searched the dictionaries in vain for exact definitions which will enable me to completely separate them. It seems to me that we are, today, chiefly concerned with insurance education through "schooling" as contrasted to gaining knowledge of insurance through experience or by training through practice. Schooling, to me, implies study and expert instruction in the theory and principles of this business, the method and mechanics by which theory and principles are applied in insurance, and examination and analysis of the use of that method to conduct insurance as a business.

May I start with my reaction to the appraisal of insurance company educational programs as viewed by two university teachers? During my business career I was engaged in insurance for a profit, and, therefore, interested in the contribution which education makes toward that end. The papers by Professor Kahler and Professor Irwin both stress the *practical* use of education, but inherent in each of these papers is the underlying thought that the cultural value of education makes the student a beter rounded man, and, therefore, a better exponent of insurance.

Whereas Prof. Irwin deals with the education of sales personnel, he

makes a point of teaching the fundamentals of insurance, and emphasizes the need for continuous training, or re-training, as the changes in insurance operation involve new applications of these principles, or fundamentals. This is a valuable reminder to those in insurance, or in any other activity, that graduation from school or college does not imply sufficient education to keep one abreast of a constantly changing world. New methods are discovered or invented, even though fundamentals remain unchanged. The instructors in the training classes, of which Prof. Irwin speaks, are insurance men who have demonstraed their ability to sell, rather than teachers who have proven ability to teach. Of course the success of the trainees in these classes will be the measure of the insurance supervisor's ability to impart his knowledge to others. In the question and answer periods in salesmanship classes the experienced professional salesman enjoys an advantage over the expert professional teacher.

I am much impressed by Prof. Kahler's differentiation between education and training. I have seen instances of employees with well-rounded experience in the business who were utterly stumped by a problem which they had never met before. Lacking schooling and education in the principles and fundamentals of insurance, they had no foundation upon which to base an original application of the established rules which govern insurance. Prof. Kahler points out that, when the student has learned "why" insurance performs its economic function, he finds it easier to learn "how" that performance is accomplished.

He mentions another value to be gained by insurance companies through the operation of educational courses for their employees in the screening of workers as to their several aptitudes. For example, participation in classroom discussions, and student's examination papers, may result in developing a valuable inspector or accountant who has, theretofore, been an indifferently expert underwriter.

Both Professors Kahler and Irwin command the growth of education through insurance company programs which have been started or revised in the last three or four years. Other businesses, such as banking and the large industrial corporations, have taken a commanding lead in this field. The abstractions with which insurance must deal make education in fundamentals and guiding principles doubly desirable in this business.

Prof. Kahler touches upon the usefulness of question and answer periods in classes, to bring out the initiative of the students, and to develop their capacity to think independently, accurately and thoroughly, as well as to express their thoughts clearly and concisely. Earliest classes in insurance consisted almost entirely of lectures by authorities on some one phase of insurance operation. The advent of professional teachers in company schools introduced teaching instead of preaching. Visual aids are used in some company schools to evoke from the student his comprehension of a situation involving an insurable peril. His imagination, his knowledge of insurance coverages, and his willingness and ability to express himself, are all encouraged and developed by this method of teaching.

Any objective appraisal of education, conducted by insurance companies should take into account the fact that these programs are

initiated and promoted by men who have spent their lives in the business of insurance, rather than in academic work. The increase in number of, and improvement in procedure for, insurance company schools, applauded by Professors Irwin and Kahler, is evidence of the value which these insurance administrators place upon education for their staffs. The sympathetic attitude which these university teachers display toward the companies' problems will encourage greater reliance by the companies upon advice and counsel by the universities.

Now may I turn to Mr. L. Ray Ringer's reaction to insurance education on the the university level? When this paper was written I had not seen Mr. Metzger's address, and I shall comment upon that from notes which I have made during its delivery.

Mr. Ringer starts with a definition of terms. Undoubtely he has found that to be the best starting point in teaching insurance in the classroom, whether in a company school or at a university.

Please permit me, at this point, to ride one of my own hobby horses, briefly. How in the world can a teacher, even a Mark Hopkins, convey an understanding of insurance to a student unless both student and teacher speak and understand the same language. Examination papers in recent years disclose a lamentable poverty of expression among our young men and women. My own sons spoke more grammatically, and more precisely, before they attended two of our larger universities.

Institutions of higher learning may argue that the teaching of correct speech is the job and responsibility of the high schools. They, in turn, pass the buck to the grade schools. I say to you that the colleges should devote more time and thought to improving, in their students, a more thorough, a more exact, knowledge and use of our only means of thought transference — the English language.

Returning to Mr. Ringer's constructive paper, he comments discerningly, upon the educational background of the young man seeking employment by an insurance company, and particularly the preferment which he may expect if he has taken an insurance course in college. He speaks of the low esteem in which company officers once held such courses, and the recent change in their attitude. Politely, he omits the apparent reasons for this change. College and university courses were, at one time, theoretical only, unrelated to the changes which the business has undergone since the text books of that day were written. Happily, many university teachers are, today, constantly studying insurance operation at its source, keeping themselves informed upon what is happening in the business, and teaching insurance as it currently exists. Teachers who immure themselves within academic halls can turn out only students who *should* forget that they ever took an insurance course in college.

Mr. Ringer speaks of the desire by employers and employees to reach, so soon as possible, proficency in a task which will earn dollars for both of them. The universities may greatly assist to overcome the impatience of students with the study of the guiding principles of insurance, as they have been distilled from events of history, by illustrating each basic principle, when it is presented, in terms of today's underwriting practice. Mr. Ringer has told us how easy it is, relatively, to explain and illustrate the principle of indemnity. The principle of coinsurance lends

itself, equally, to clear exposition. Even though the student is not taking a course in law, it will broaden his grasp of sound insurance operation to know that aleatory contracts are illegal, because they are *inimical* to the public interest, but that insurance policies, which are aleatory contracts, are held to be *in* the public interest when they observe the principles of insurable interest and indemnity.

It seems to me, gentlemen, that the papers presented today by academicians on the one hand, and insurance men on the other, disclose a narrowing of the gap between the two points of view—a gap which, at one time, prevented each of these groups from taking full advantage of the help which it should draw from the other. The team work, of which these papers are evidence, will redound to the benefit of universities, insurance companies, and, of most importance, to the distribution of insurance, intelligently fitted to the needs of the insuring public. Improved performance in the public interest should be the major goal of the insurance business, and of the universities.

I feel qualified to say that, at one time, there were hard headed, successful men at the helms of some insurance companies who pooh-poohed the idea that teaching the history and principles of this social device would make their employes more proficient. Recently I heard a delightful story from two company officers who started a class in insurance soon after they came to work for the company. Other young men in that company's service attended these classes in the evenings, on their own time. An older officer, grumpy but a successful operator, chilled these two college men for keeping the employes out at night and diverting their thoughts from the business, just to teach them about the Phoenicians. One of the college trained men said, "But, Boss, the Phoenicians set the pattern for many things which we do today. They invented a number of *practical* things, Phoenician blinds, for example." It was enough. It convinced the old man that the study of history and its lessons could have a link with the present and its problems.

INSURANCE — The American Way

by

Jesse W. Randall, President, The Travelers Insurance Companies

Every once in a while I read or hear that private enterprise in this country is on its last wobbly legs. On the one hand there are the dreamers and schemers who are blueprinting a plan for a super-social welfare system that will take care of all our needs without the sordid grubbing for profit in which we business men engage. And on the other hand we have the reactionaries who, moaning about the "good old days," are unwilling or unable to face the fact that history is never static, and are sitting back in apathy to await the inevitable collapse.

The latter I ignore as cowards who would fall by the wayside under any economic system. I wash my hands of them now as far as this discussion is concerned. The former present a much more worthy foe and their spokesmen are many. I am here tonight to give you the business-man's side of the story.

In the play "Annie Get Your Gun" there is a very tuneful duet. One person sings this line: *Anything you can do, I can do better.* The second sings: *No you can't,* the first sings: *Yes I can,* the second sings: *No you can't,* and so on. Remember it?

Well the first line of that duet seems to be the theme-song of those who would substitute something else for our American way of life. They sing it everywhere. Anything *private enterprise* can do, *Government* can do better, It is true that for the last fifteen years a good many voters have been dancing to this tune and I suppose it is conceivable that some educators, including you teachers of insurance, might also fall under the spell of this impassioned chant.

And so I have come down here tonight to supply the other half of the duet. I am here to sing *No you can't!*

While I am naturally concerned with this inching along toward some kind of "ism", first under the New Deal and now under the Fair Deal, I most certinly am not pessimistic. I cannot take it too seriously for this very obvious reason:

Private enterprise has a plan, too It is not in the blueprint or planning stage. It is not a promise, it is a fulfillment. It was working yesterday, it is working better today, and it will be working even better tomorrow. Already it has given the people of an entire nation, for the first time in the history of the world, a decent living. It is producing *more* of the world's goods than any other system, the *best* goods produced by any system, and it is making those goods available to *all* the people. It has made us more prosperous in times of peace than any other nation and twice in a generation it has won wars against groups of nations who thought their system was better.

It simply does not make any sense to me that the American people are going to trade in their Cadillac for a Model T.

When I speak in defense of private enterprise I am not talking about the mercantilism of the Middle Ages, or the "laissez-faire" philosophy of the late seventeen-hundreds or the "rugged individualism" of the late eighteen-hundreds or even the so-called "good old days" of the early part of this century. That was free enterprise at its worst. It was sometimes lawless, merciless, inhuman enterprise. It was bound to perish because it was based on a philosophy of getting everything you can and let the Devil take the hindmost.

What I *am* talking about is the economic system, peculiar in many ways to our own country, which you and I know best. Some people call it "The American Way." The simplest explanation of private enterprise is that it is business owned by persons who expect to make a profit from it. It may be only one person, as in the case of the owner of an automobile repair shop or a small insurance agency, or it may be thousands of persons who hold stock in, and therefore own, General Motors or any of our great insurance companies.

Private industry — 1949 style — is not lawless, merciless, or inhuman because it has long since become enlightened. It does not say it cannot live with Government; on the contrary it invites governmental participation. It accepts laws which regulate certain of its procedures. What it does *not* accept is that all of its operations should be dictated and controlled by office-holders and theorists. It does not say for one minute that the system is perfect; it does say that it can and will cure its own ills better than Government can cure them. It says it has done a fine job for the American people in the last half century, it is doing a magnificent job now, and it is prepared to do a superb job in the future.

For a long time people have been looking for Utopia, and they always will. It is human to dream. But we do not live in dreams, we live in a world of reality and I submit that our present economic system, while not exactly Utopia, is a long long way from a system that is staggering toward collapse.

We do not have to look beyond the business under discussion tonight — the insurance business — to see the marvels that have been wrought in America by private enterprise. You cannot name a single American institution, public or private, which has affected the lives and welfare of more people beneficially than insurance.

What takes care of millions of families when the breadwinner is removed from their midst? Insurance.

What keeps the home owner from blowing his brains out when he sees his home which, aside from his family, may be his most priceless possession, lying in ashes? Insurance

What protects the farmer against the ravages of fire, flood, and wind damage? Insurance.

What protcts the worker against complete loss of income if he is injured on the job? Insurance.

What takes care of millions of us when our income is cut off because of accident or illness while off the job? Insurance.

What protects the motorist from a back-breaking financial load if his car should kill or maim a fellow human being? Insurance

Thus does a great industry serve America's needs and wants day in and day out. It is a dynamic system made up of hundreds of individual companies, competing to give the public the best possible products and service at the lowest possible cost. It employs in its home offices thousands of actuaries, bookkeepers, clerks, doctors and so on down the alphabetical list from A to Z. It provides the means for a good livelihood for tens of thousands of brokers, agents and other producers in every town and hamlet across the land. These agents are not sitting around in Government rented offices — acting as clerks — taking care of applicants for insurance — certain of a paycheck at the end of the month whether they ever take their feet off the desk or not, No sir. They are out after business, preaching the gospel of protection, selling insurance to people who need it. Just so long as they produce do they get paid. The more they produce the more they are paid. There are no drones in the insurance business because there is no provision in the system to take care of loafers. There is no stiffling bureaucracy in this living, breathing organism. It is functioning smoothly, efficiently, tirelessly, like a well-oiled machine, tailoring new coverages to fit the changing needs of individuals and corporations, investigating and paying claims in a matter of hours without a lot of red tape, endlessly seeking methods that will give it even greater efficiency.

This we are doing. Yet there are those who continue to say: Anything you can do, I can do better. I say *No you can't.*

I have mentioned aspects of the business with which you are all familiar. The direct, on-the-surface benefits of insurance are known to everybody. There are few indeed who do not, at some time in their lives, witness the beneficence of insurance in action after a death, an accident, a fire or some other calamity. But there are other aspects of our business not so self-evident. Let us examine some of them.

Granting that Americans are the most venturesome in the world, from the bold pioneers who built our country to the large and small business men of today who are keeping it strong, can you believe that we could have come so far and so fast in our brief history as a nation without a plan which would allow these go-getters to spread their risks? No one ever got anywhere without incurring some risk, it is true. The man of limited means who wants to start a business of his own takes a chance on his ability to make a better product than his competitors or to make an equally good product at a lower price. He has faith in himself and he faces those risks bravely. It is the unpredictable risk, over which he has no control, that could ruin him.

Suppose an explosion or a fire wipes out his physical properties? That hazard can be covered by insurance and he can build anew.

Suppose, in such a catastrophe, he is held liable for death or

injury to a large number of his employees? That risk can be covered in advance by insurance.

Suppose his trusted treasurer alters the books or rifles the cash register and gets away with substantial funds — in some cases even all his working capital? That risk can be covered.

Suppose his partner, or his sales manager, or his chief designer is taken by death, thus robbing him of valuable brain-power? That contingency can be taken care of by insurance.

Suppose, for some reason beyond his control, his product causes a series of accidents for which he would be held financially liable. That possibility can be foreseen and insured against.

Without the assurance that these unpredictable risks could be covered in advance, how many men would have the courage, the boldness, to start a new business? But the assurance was there — through the institution of insurance.

Where would our country stand today, among nations, without the vast amounts of venture capital needed to ribbon the nation with rails, to turn the metals of the earth into automobiles, refrigerators and airplanes, to turn the rocks and the forests into houses and cities? In some countries much of this capital has been supplied by the government out of taxes and in others by a very small group of wealthy families. Over and over again we have seen the perils of vesting control in the hands of small, powerful cliques, governmental or otherwise. In the United States most of it has been supplied by hundreds of thousands of large and small investors. Had it not been for the fact that insurance lifted the burden of personal risks from the shoulders of millions of Americans they never would have dared to incur the business risks involved in investing their savings in the building up of businesses of their own or in the form of venture capital in new enterprises started by others.

Thus we see how insurance is woven into the very fabric of American's greatness. The protection it has offered and the capitol it has made available have combined to give Americans a chance to take a chance. Yes, private insurance has met every need in developing America. Do you think any other system — a sprawling bureaucracy-ridden system for instance — would have had the versatility and the flexibility necessary to meet the fast-changing needs of this swift-moving era? Private insurance has met the test of the pioneering age, the machine age, and the power age it is ready to meet the test of the atomic age.

In spite of this evidence there are those who keep repeating: Anything you can do, I can do better. I say, *No you can't*

Planners of the super-state and the chronic viewers with alarm talk vaguely about the evils of the profit system. I suspect that much of the damning it has received comes from the very ones who, themselves, went off on a profit-seeking spree in the 'twenties and got their fingers burned. Let us never forget that profit has been the incentive that has made America's wheels go 'round. The system may have some faults, but oh what virtues! There also seems to be a naive assumption that because private enterprise operates at a profit the prices necessarily must be high. They overlook a basic

point which I thought had been proved to the satisfaction of everyone. Let me repeat it here. Private business thrives on lower prices. Productive genius is ham-strung if it cannot sell its goods or service to the people. Some advocates of change also say that American economy is becoming less competitive, arguing that business is becoming more and more concentrated in large, well-established enterprises and that these concerns are more interested in maintaining the status quo than in improving their methods and their products. Quite the opposite is true; business is vigorously competitive under the present system. The profit motive, along with free competition, brings prices down, not up. Nobody would be stupid enough to manufacture a lot of automobiles and then hang a price-tag on them which nobody could meet. How much more would a Chevrolet cost if there were no Fords or Plymouths?

But let us get back to the insurance business. Because it is much more involved, it is much less understood than the business of producing and selling automobiles but the principles are the same.

How many life insurance agents are there in your town, representing how many different life insurance companies? How many fire insurance agents, casualty insurance agents? Enough, I assure you, to make certain that the rate-makers back in the home offices aren't picking the premium rates out of the clouds or setting them at a preordained level established by a greedy management.

Aside from the pure profit motive there is, in the insurance business as in all enlightened businesses, a moral issue involved. We in the business love it and believe in it. We want its benefits to be shared by as many people as possible. We will fight to give fair value.

Few people realize to what extent premium rates have declined over the years. A 40 per cent reduction in fire insurance rates in the last 30 years provides just one example. An average country-wide decrease in workmen's compensation rates of 20 per cent in ten years is another. And these examples tell only half the story. Not only have rates declined in many lines but coverages have been extensively broadened in many others without any increase in rates. Furthermore, as new conservation techniques are perfected and new labor-saving devices are developd the cost of operating the business will be decreased and the savings will be passed on to the people in the form of still lower rates. Does that brief review of progress in the field of pricing sound like we were on our last legs? Have you seen any evidence that socialistic economies can match this adventure in free American enterprise? Do I hear the planners of the super-state chanting their familiar refrain: Anything you can do, I can do better? I say *No you can't.*

Some of our critics accuse us of a lack of humanitarianism — or at least they cry to the voters that they will do more for them.

The insurance industry has never been a boastful one — in fact I have always felt that it has been much too modest. Let me give you a few examples of humanitarianism at its best for which private insurance has never taken the credit it so richly deserves.

It is within the memory of many of us when one workman was killed

for each story of a new building under construction. That was about par for the course.

Some of us can still remember when elevators plunged to shrieking death with alarming frequency.

It is not so long ago that unguarded machines ripped the hands and sometimes the scalps off their operators.

Only a generation or so ago industrial illnesses were so common as to be accepted fatalistically as unavoidable occupational hazards. Lung irritations, skin diseases and poisons took a heavy toll.

Contrast that era with the one which exists today — just four days before the century reaches its middle mark.

Skyscrapers are being built without the loss of a single life and sometimes without even one disabling injury. How long is it since you heard of an elevator falling? When an airplane crashed into the Empire State building a few years ago, cutting the cables of an elevator, the operator fell eighty floors, but because of built-in safeguards her life was spared. An unguarded machine in a factory today is the exception rather than the rule; many can be operated by the blind without fear. Industrial medicine has eliminated many of the occupational diseases and controlled many others.

Here are two figures for the record: Occupational death rates have been cut in half since 1913. Life expectation has increased by twenty years since that year!

It is true that many forces have been responsible for the nation's vastly improved accident and health standards, but the part played by the private insurance industry must never be overlooked.

Insurance safety engineers have invented mechanical safeguards to cope with every technological advance in industrial production and they are working right now on new problems which will face us in an atomic age.

Insurance industrial physicians and chemists have placed health safeguards around many industrial hazards once thought to be inherently dangerous.

Fire engineers have brought the science of prevention and control to a high degree of efficiency.

Life insurance companies have poured millions of dollars into health education and substantial sums on research regarding problems of the national health.

Casualty companies have poured other millions of dollars into research and education on problems of national safety.

Yes, with every means at its command the private insurance industry has fought to curtail accidents, diseases and fire — through community and national drives, through newspapers, magazines and radio, through collaboration with public and private health and safety organizations. And with every passing year our techniques are getting better and better results.

In spite of these wondrous achievements, there are the blueprint boys who say: Anything you can do, we can do better. I say, *No you can't!*

In last month's issue of the Atlantic, Sumner H. Slichter painted a vivid word-picture of what life will be like in the United States

in 1980. This noted Harvard economist, and I hope he is here with us tonight, is not one to engage in starry-eyed daydreams; his predictions are documented down to the last decimal point.

Among the good things Mr. Slichter envisions only 30 years hence are a 30-hour work week for everybody, two cars in almost every garage, air-conditioned homes, millions of family-sized swimming pools, better and more food for everybody, a much higher proportion of Americans completing high school and college, vastly improved medical services, longer vacations, greatly increased travel for all, and the greatest opportunity for people to pursue the arts, from gardening to painting and writing, than any people has ever known.

Utopia? Yes, it sounds like that, but no more so than if, in 1900, someone had predicted that within fifty years nearly every family would own an automobile, a telephone and a radio, that four of every five children of high school age would be in high school and that the number of university students would increase four times as fast as the population.

Nowhere in Mr. Slichter's learned treatise do I find any hint that these good things will come to pass only with a changed stewardship of our national economy. On the contrary, they seem to me to be predicated largely on a continuance of our present economic system. He cites the rapid increase in our technoligical knowledge, and that surely is flourishing under a system of private enterprise. He points to the enormous sources of new capital available to corporations in the savings of persons with small or moderate incomes. He decries as a myth the argument that competition is less vigorous today than formerly. This leads me to but one conclusion: that if anybody can make a better America, private enterprise can.

Gentlemen, should we not stop looking around for an "ism" to cure our economic ills and recognize the fact that we have something that comes pretty close to a Utopia right under our noses? If it is now something less than perfect should we say, therefore, that our economic plan is no good and should be cast aside? Or should we take that plan and by conscientious, intelligent an imaginative labor make it perfect? I say we can, we must, we will!

I thank you.

Part II — Review of the Year

Life Insurance

by

James S. Elston, Assistant Actuary, The Travelers Insurance Company

The United States legal reserve life insurance company had about $219,100,000,000 in force December 31, 1949, it is estimated by the Life Insurance Association of America. This includes $143,900,000,000. Ordinary, $32,600,000,000 Industrial and $42,600,000,000 Group. These figures include insurance in other countries, almost entirely Canada. The estimated total on U. S. residents, including that in Canadian companies, about 80,000,000 policyholders, is $213,400,000,000, an increase of about 6% in 1949. This total si distributed $140,100,000,000. Ordinary; $31,600,000,000. Industrial and $41,700,000,000 Group.

The new paid-for business of United States companies for 1949, not including revivals or increases, is estimated at $24,400,000,000, the new Ordinary being $16,200,000,000, the Industrial $4,800,000,000, and the Group $3,400,000,000. Again the total on United States policyholders is estimated at $23,200,000,000. The total of the last three years is about 40% above any previous three year period. The insurance lapsed and surrendered in 1949 was about 22% greater than in 1948. The payments to policyholders and beneficiaries are estimated at $3,500,000,000 of which about 57% represents payments to living policyholders. In addition about $400,000,000 benfits were paid by life companies under accident and health contracts. All types of payments increased over last year and all except surrender values and disability benefits are at all-time peak levels.

The admitted assets are estimated at $59,300,000,000 by Dr. James J. O'Leary. Reflecting the heavy volume of capital formation in the private sectors of our national economy during the last three years, public utility bond holdings rose from 11.6% of assets at the end of 1946 to about 16.5% now. Industrial and miscellaneous bonds, mainly industrials increased from 6.9% to 14.9% and mortgage holdings from 14.8% to 21.7%. Holdings of U. S. government bonds declined from 44.9% to 25.6% of assets.

There is also about $8,400,000,000 insurance in force in fraternal orders and $400,000,000 in assessment organizations and $2,250,000,000 U. S. Government Life insurance on veterans of the first World War. The amount of National Service Life insurance resulting from the last war is about $40,000,000,000. The amount of Savings Bank life insurance in force in Mass., N. Y. and Conn. is about $500,000,000. The aggregate in force of about $258,000,000,000 is almost twice that in force at the beginning of the war.

Benefits under the Social Security system to widows, children, and others are paid, except for certain comparatively small amounts, in monthly income during widowhood, infancy, etc., as defined by the

law. These payments are not usually considered as life insurance, but if the present value at date of death of such benefits were calculated, the total for all now covered has been variously estimated at from $60,000,000,000 to $100,000,000,000.

Every life insurance company must file before March 1 a very complete annual statement with the Insurance Department of every state in which it is licensed, but it takes months for even organizations devoted to the compilation of statistics to assemble totals of all companies. The latest comprehensive statistics available, therefore, are for 1948.

*LEGAL RESERVE LIFE INSURANCE—1948**

(Dollars in Millions)

Total Premium Income	$7,132	Real Estate	$ 1,055
Investment Income	1,702	Mortgages	10,823
Other Income	769	Bonds	37,965
		Stocks	1,427
Total Income	9,603	Collateral Loans	9
Death Claims Paid	1,443	Loans to Policyholders	1,954
Matured Endowments	436	Cash	909
Annuities and Disability	355	Deferred and Unpaid Premiums	822
Surrender Values Paid	473	All Other Assets	548
Dividends to Policyholders	600		
Accident and Health Benefits	295	Total Admitted Assets	55,512
Total Paid Policyholders	3,602	Liabilities	51,226
Other Disbursements	2,234	Surplus **	4,286
Total Disbursements	5,836		

**Includes amount set apart for dividends to policyholders during following year and special, voluntary, contingency, etc., reserves.

It will be noted that about 60% of the payments to policyholders were "living benefits," that is to the policyholders themselves rather than to their beneficiaries.

	Ordinary	Industrial	Group	Total
New Issues and Increases	$ 17,092	$ 5,043	$ 6,670	$ 28,805
Terminations:				
Death	1,035	215	239	1,489
Maturity	287	141	4	432
Surrender	1,274	818	30	2,122
Lapse	3,522	2,517	395	6,434
Other	1,400	790	325	2,515
Total	7,518	4,481	993	12,992
Insurance in Force	135,669	31,699	39,210	206,578

* Spectator Insurance Year Book—All United States companies (380).

Some government sources have been raising the question of the size of the life insurance industry. Mr. Holgar J. Johnson recently made the following comments on the comparative growth of life insurance and the economy in general. "Let's look at a few facts about life insurance and its relative size so as to get a better perspective. Between 1940 and

1948, gross national product rose by 159%, national income by 178%, total wage and salary payments by 173%, and the aggregate of personal spending of consumers by 148%. At the same time, combined expenditures of Federal, State and local Governments increased by 182% in the period, and the cost of running the Federal Government alone by 251%.

"Representative figures such as these, therefore, show that the whole economy has more than doubled in size since 1940 and that the growth of Government has been even greater. What of life insurance? Here the figures show that between 1940 and 1948 the total of life insurance in force rose by 74%, total assets by 80%, premium income by 81%, total income by 70%, and average life insurance ownership per family by only 47%. Thus life insurance has definitely lagged behind the general economy in the past decade. As a matter of fact, it has barely kept up with the rise of 70% in living costs over prewar."

In contrast to the situation a year ago when indications seemed to point to a long range hardening of interest rates the picture has completely changed today, said Claude L. Benner, president of Continental American Life Insurance Company, addressing the American Life Convention. . .

"The advocates of low interest rate from the inception of our cheap money policy in 1932 have always assumed that the burden of low interest rates was mainly felt by the wealthy classes and somehow or other were an aid to the poor. . . Nothing could be further from the truth. This is shown clearly when one studies the impact of low interest rates on the cost of life insurance. The ownership of life insurance is not centered in the rich. The average policy, even excluding Industrial insurance is not large and the billions of life insurance in force in this country are owned by the rank and file of our average ordinary citizens. Anything that increases the cost of life insurance is a burden which the average man has to bear.

"Recently, we had our actuaries prepare the net costs for a term of twenty years on an Ordinary policy issued at age 35, based on the premium and dividend scales in force in 1929 for the ten largest participating companies, excluding industrial companies, doing business in the State of New York. Then we had them prepare a similar cost for this type of policy and for the same companies according to the premium and dividend scales currently in force. We found that the cost of insurance on account of the reduced interest rate alone had gone up 21%.

"The increase in the cost of providing a given number of dollars of income to be a beneficiary through insurance is really astonishing. I shall illustrate the cost of maintaining enough Ordinary insurance issued at age 35 so that if the insured dies during the twentieth policy year when his wife is age 55, she will be guaranteed a monthly income of 100 a month for life with ten years income certain. This is a typical settlement option.

"In 1929 it would have been necessary for this purpose to buy a $17,500 policy, the next cost of which for 20 years would have been an average of $309 per year. To-day to provide the same number of dollars of income, the policyholder would have to buy $22,950 of life insurance, the the net cost of which would be an average of $491 per year. Substantially, all of this increase in cost is due to lower interest rates. . .

"Nor can this 59% increase in the cost of providing the same number of dollars of monthly income be dismissed with the statement that it is just part and parcel of the general increase in the cost of living and is typical of the increase which has taken place in the general price level. In order to provide the same quantity of food, shelter and clothing that was provided by an income of $100 a month before the war, it is now necessary to provide an income which, when expressed in dollars, is increased in proportion to the increase in the general price level. In short, he must carry about 70% more insurance and at a 59% increase in cost.

"This 59% increase in cost is the measure of the added burden on a large and increasing number of policyholders due solely to the reduction which, incidentally, is due largely, if not solely, to the low interest policy of our Federal government. . . ."

Announcement has been made that a dividend of $2.8 billion will be paid shortly on National Service Life Insurance to some 16 million veterans. Gordon D. McKinney in the November Life Association News analyzes the factors involved. As N.S.L.I. has been in existence since 1940, most veterans will receive now the dividends not paid over several years. The interest included because these dividends were not paid annually is an appreciable amount. The principle element is that the law provides that the excess cost of all death and disability claims traceable to the extra hazards of military or naval service will be met out of general revenues instead of by the fund. These claims have amounted to $3.5 billion up to 1948 and President Truman has anticipated that the government contributions for the fiscal year 1949-50 will bring the total to over 4 billion dollars. The law also provides that no administrative expense shall be charged to N.S.L.I. Also the Government issues to the trust fund special bonds on which it pays 3% interest instead of the 2% or 2½% on bonds sold the public. Tax Foundation, Inc., estimates the annual cost to the Government besides the service connected claims as $100 million annually. The trust fund of course also pays none of the taxes that insurance companies do.

Several interesting compilations, some based on special requests to the companies for information have been made by the Institute of Life Insurance.

The life insurance companies of the country had completed or had underway housing projects designed to provide rental housing for 47,000 families through an investment of $475,000,000 of policyholders' reserve funds, the Institute reported in May. Of the total planned to date, 41 projects, housing 34,500 families and representing an investment of $275,000,000 had been completed and were occupied. The total completed thus far, $360,000,000 was larger than the recorded real estate holdings under rental housing, as a portion of the housing projects are held through corporations especially set up for specific projects, the securities of which are owned by the life company concerned. Additional housing for 12,000 families, representing an investment of $185,000,000 was under construction, with nearly half of this completed and occupied. Additional housing for 500 families with an investment of $15,000,000 was planned but not yet under construction.

Total mortgage financing extended by the life companies on June 30

was $11,847,000,000, under 1,275,000 individual mortgages, the Institute reported. About 80% of these were on individual homes and 98% of the home mortgages were in amounts under $15,000. The average home mortgage outstanding was under $5,000. In addition, some 5% of the life company mortgages were on multiple family dwellings, with about 70,000 of these outstanding atmid-year. More than 60% of the latter were in amounts less than $15,000 and the average of all such mortgages was about $35,000. Farm mortgages accounted for about 150,000 loans in an average amount of about $7,000. Adding these three groups together, in view of every farm property representing housing for a family, the total of mortgages extended by the life companies which represent financing for housing comes to about 90% of all mortgage loans extended by these companies. In total there were more than 1,200,000 at mid-year and they represented money loaned to residential property owners in the amount of nearly $8,500,000,000. The remaining mortgage loans were on non-farm commercial properties and number about 45,000. These were predominantly loans for small business. About one-third were in amounts under $15,000 and well over 80% were smaller than $10,000.

Comparative analyses of the deaths per 100,000 policyholders by cause of death in 1948 were as follows:

	Ordinary Policyholders	*Industrial Policyholders*
Chief Cardiovascular-renal Diseases	327.9	357.8
Heart Disease	252.4	249.0
Cerebral Hemmorhage	54.1	72.0
Nephritis	21.4	36.8
Cancer	98.7	115.8
Respiratory Disetses	24.7	41.9
Childhood Diseases, Diarrhea and Enteritis	—	4.9
Tuberculosis	11.4	33.8
Diabetes	9.6	22.7
External Causes	57.8	65.5
Motor Vehicle Accidents	18.2	16.8
Other Accidents	24.5	35.1
Suicides	13.1	7.4
Homicides	1.7	5.9
War Deaths	.3	.3
All Other Causes	95.0	129.5
TOTAL	625.1	771.9

In a survey of one month's death claims under life insurance policies, the age distribution at death was as follows:

Age of Insured at Death	*Ordinary Insurance*	*Group Insurance*	*Industrial Insurance*	*Total*
Under 24	3%	2%	6%	5%
25 — 34	4	5	5	4
35 — 44	8	10	8	8
45 — 54	19	22	15	17
55 — 64	28	33	24	26
65 — 74	24	20	24	24
75 and Over	14	8	18	16
TOTAL	100%	100%	100%	100%

Fulfillment of the special need for protection during the period of family responsibility is demonstrated by these claim distribution figures. More than half of the payments last year were made at ages at which the dependency problem is dominant.

It is natural that the second largest group of claims is on the lives of persons 65 and over. This is because of the increased death hazard with advancing age and because of a great many families maintaining their protection into their later years to meet the dependency hazard among older beneficiaries who would find it difficult to provide for themselves.

To study the degree to which death benefits paid under life insurance cover family needs the Institute of Life Insurance specially analyzed 75,000 August death claims. It was found that 62% of the total claims were on male policyholders but in the case of ordinary insurance only, 84% of the total. Further evidence of the family coverage was found in the fact that in 63% of all death claims the beneficiaries were wives, children or estates, with 18% more being other relatives. In the case of ordinary insurance only, 77% of the beneficiaries were wives, children or estates, with 12% more being other relatives.

These figures clearly show that the greater part of life insurance represents voluntary family protection established by the chief income producer to provide at least some degree of income replacement for his dependents.

In a similar analysis it was found that one in every twenty life insurance death claims occurs less than a year after the policy is issued. Every sixth policy claim is under a contract of less than five years' standing. Of the total ordinary insurance claims 2% occurred within one year of issue of the policy, 8% from one to five years, 10% from 5 to 10 years, 31% from 10 to 20 years and 49% 20 years or more. Group life insurance, which is issued without medical check-up, shows a much higher ratio of early claims. Of total group death claims, nearly one-fifth were under policies less than one year old and half were under policies less than five year old. There were relatively few death claims under group policies 20 years or more old. Fewer of these policies have been in force for the longer periods, because this type of insurance is largely a development of recent years. Total group life insurance owned 20 years ago was only one-third of today's total. Also, the ter-

mination rate of group insurance through discontinuance of employees is a factor. When an employee changes jobs, he goes on the group insurance plan of the new employer as a new policyholder. Industrial life insurance showed not quite 5% of the claims under policies less than one year old and 15% under policies less than five years old; 15% were 5 to 10 years old; 30% were 10 to 20 years old; and the rest were 20 years and over." Reports available indicate that the death rate among policyholders are at an all time low, some 15% under the rate ten years ago.

Almost $640,000,000 of life insurance benefits paid in the United States in 1948 were used to set up continuing income for policyholders and beneficiaries, rather than to be taken as lump sum settlement. This was the largest amount ever used in this way in a single year. These funds represented 42% of all ordinary and group insurance death benefits and matured endowment payments. Policyholders and beneficiaries at the start of this year had accumulated 4,400,000,000 with their companies, to provide the principal from which continuing income may be paid. In 1948 the amount actually paid out as income from these accumulated funds was $430,000,000. Millions of life insurance policies now in force, representing many billions of protection, are either set up by the policyholder to provide income or may be used eventually by beneficiaries to establish income plans.

The 1948 purchases of juvenile insurance on children under 15 were nearly $3,000,000,000 and the inforce approximates $15,000,000,000. About 5% of the Ordinary and nearly 25% of Industrial insurance in force is on juvenile lives.

At the start of 1949 there were 4,250,000 extra rate policies owned in this country, representing $8,500,000 of family protection. This was an increase of 250,000 policies in the previous year and the total protection was raised by $500,000,000. "During 1948, the purchases of such insurance totaled $1,500,000,000 under 450,000 policies, accounting for one-tenth of all ordinary life insurance purchased," the Institute commented. With more than seven million ordinary life insurance policies applied for in this country in 1948, 96 out of 100 were on persons acceptable for insurance, the Institute reports. Of the policies issued, 93% were standard rate and 7% extra rate policies for persons found to have some medical, occupational or other impairment. Just under 4% of the applications for insurance were declined by the companies and the 275,000 declined amounted to $850,000,000 out of a total of $19,000,000,000 applied for.

Chief cause for the declinations was cardiovascular-renal diseases, which accounted for between 40% and 50% of the declinations. Medical history of past impairments was the next in importance, accounting for somewhat less than 20% of declinations. Physical findings other than cardiovascular-renal caused about 15% of the declinations; underweight and overweight combined less than 2%; occupational hazards less than 2%. Of those issued extra rate policies because of impairments, cardiovascular-renal diseases also constituted the leading cause for the extra rating, accounting for 20% to 30% of the cases. Overweight and underweight combined accounted for more than 10% of the cases requiring extra rates. Medical history accounted for about 10% of the extra ratings, other physical findings about 10%, occupational hazards about 25%.

According to a special report of the Institute, more than $900,000,000 was put into the purchase of annuities. Five years ago, the year's annuity premiums came to $479,000,000. In 1930, they were $108,000,000 and in 1920 they were $11,000,000. The lessons of the big depression, the trend towards self-planned security for the later years of life and the development of group annuities among workers have been major factors in this recent development. At the start of this year, more than 3,500,000 annuity contracts were in force. This compares with 2,000,000 as recently as 1941. The annuities now in force will pay annual incomes of nearly $1,100,000,000 part of it being currently paid out and part of it to begin at some future date. During 1948, actual income payments totaled $227,000,000. Group annuities, set up by employer-employee groups for retirement, have accounted for the greater part of the annuity increases in recent years. At the start of 1949, they totaled 2,175,000, representing $440,000,000 of annual income. In 1941, they numbered 966,000 and the income they provided was $159,000,000 yearly.

Although life insurance purchases are currently in record volume and life insurance ownership is at a record peak, the percentage of national income going into premiums for life insurance and annuities has been dropping. It was 2.9% in 1948, compared with 3.1% the year before, 3.2% in 1946, 2.9% in 1945 and 4.9% in 1940. In mid-depression 1935, the ratio was 6.5%. There is, of course, a fluctuation in this ratio with changes in trend of national income. In periods of rising income, there is a tendency towards lower ratios and in periods of stable or falling income, the ratio tends higher, largely because most people maintain their life insurance at a high level, even though other items may be curtailed. What this means is that today American families in the aggregate have more than twice the life insurance protection they had 15 to 20 years ago, but the total charges for this protection represent a relatively smaller portion of the national income.

Group coverage as a whole, as measured by total premiums paid, rose almost 20% in the single year 1948 and was two-thirds greater than three years before, according to the Life Insurance Association of America which has just completed a survey of group insurance coverage of all U.S. and Canadian life accident and health and casualty insurance companies. Group annuities to provide retirement pensions for worker groups showed a rise of 20% in the year. The remarkable strides made in recent years in extending protection to the workers of the country through these voluntary plans is a demonstration of the rapidity with which both management and the workers are meeting their needs through the channels now available. In the past five years, the number of persons covered has more than doubled for hospital, surgical, and medical expense coverages.

Last year's additions of group protection by employer-employee and other group units set an all-time record. Thousands of firms initiated one or another of the group plans in the year for their employees: 3,078,000 persons were brought under group surgical benefits; 2,925,000 were brought under group hospital benefits; 912,000 were brought under group medical expense benefits; 1,222,000 added weekly income benefits payable in case of accident or sickness; 1,198,000 added new group life insurance in the amount of $2,961,300,000; 1,050,000 were added to

group creditors life insurance plans, covering $393,500,000 of loans; 1,239,000 added group accidental death and dismemberment protection. As a result of these many new plans and the past year's additions to plans previously existing, the group insurance outstanding at the start of 1949 covered: 9,498,000 persons with $194,400,000 weekly income accident and sickness benefits; 16,741,000 employees and dependents with hospital expense benefits; 14,199,000 with surgical benefits; 1,927,000 with medical expense benefits; 6,147,000 individuals with accidental death and dismemberment benefits; 1,886,000 with group annuities; 16,184,000 with $37,012,300,000 group life insurance protection; 4,634,000 with $1,370,200,000 group creditor's life insurance covering balances on loans.

The number of persons sharing in this protection was much greater than the number of policyholders. The protection is actually for the benefit of the families of the workers injured. In many cases group insurance is only a part of the protection programs of the workers, but increasingly it is becoming an important supplement to the individual life insurance policies which they own.

An indication that 2 out of 3 group life plans set up for employees provide for the sharing of cost between the employer and employee is supplied in a survey by the Institute of Life Insurance, covering approximately 10,000 group contracts. The contributory contracts embraced about 75% of the number of workers insured and represented 80% of the amount of insurance outstanding under the 10,000 contracts.

The National Underwriter for December 30, 1949 presents an exhibit that shows the ranking of cities in point of premiums received in 1948 by insurers of all types, life, fire, and casualty, that are domiciled in those cities. The tabulations include both Blue Cross and the Blue Shield Associations, as well as other hospitalization and medical surgical plans. It is important in this connection to remember that claim payments, taxes, and many insurance expenses are redistributed over the country somewhat roughly in proportion to the sources from which premiums came, and that most of the premiums not immediately needed for claims and expenses are treated as reserves which are invested throughout the country, as well as in federal obligations. In fact in last years review it was shown that a comparatively large proportion of reserves are invested in southern states and those west of the Mississippi. The ratios of the companies regional investments at the start of 1949 to their regional policy reserves were New England 68%; Middle Atlantic 76%; East North Central 95%; West North Central 105%; South Atlantic 151%; East South Central 190%; West South Central 263%; Mountain 154% and Pacific 120%; the U.S. Total being 104.540, and the total including Canada and not allocated being 114.

	*Total Premiums**	*Life and Fraternal Included**		*Total Prem.**	*Life and Frat. Incl.**
New York City	$3,900	$2,244			
Hartford	1,467	541	LosAngeles	$248	$82
Newark	1,321	1,111	San Francisco	204	6
Boston	983	491	Des Moines	167	94
Chicago	514	98	Springfield, Mass.	161	108
Philadelphia	474	169	Omaha	158	51
Baltimore	281	36	Kansas City	141	36
Milwaukee	254	224	Detroit	137	12

*In millions of dollars.

Among the next ten cities those showing Life and Fraternal of more than $50 are: Cincinnati, $111; Nashville, $75; Richmond, $59; and Dallas, $54.

In a review of the year, published in most insurance periodicals, Mr. Clarence C. Klocksin covered the most interesting legislative hearings of the year. "Forty-four states and the United States Congress held regular sessions during the past year. There was some early apprehension about the probable recommendations of the New York State Joint Legislative Committee in relation to controlling the growth of the companies and to limiting their direct placement loans. Such loans were under close scrutiny of the Joint Committee which had under consideration a proposal to limit, in accordance with a formula, the amount of money that could be invested in one enterprise. It was found that such loans gave the companies no control over the loan market, nor over the management of the industries to which the loans were made. Superintendent of Insurance Dineen refused to approve the formula in question and the committee thereupon abandoned it in favor of a proposal limiting the amount that could be invested in any one business concern of 5% of a life company's assets. The Legislation passed this proposal and the Governor approved it. The hearings apparently satisfed the committee that the present status of New York, relating to the amount of new business that may be written by a company in any one year, were adequate for the purpose of regulating the size and growth of the companies.

"When the joint resolution introduced by Chairman Celler of the House Judiciary Committee, and Senator McCarran, chairman of the Senate Judiciary Committee, for a full-scale investigation of the life insurance business, failed of approval, Chairman Celler appointed a subcommittee of the House Judiciary Committee to study the effect of the Federal anti-trust laws on general business operations.

"The subcommittee began hearings last summer when witnesses from several lines of business and professions gave testimony. With specific relation to life insurance the chairman of the subcommittee appeared to believe that some of the companies have grown too large and that their investment and related practices have tended to become monopolistic. President L. A. Lincoln of the Metropolitan Life testified before the committee last August and answered questions that were raised at the time.

"The hearing took on an added interest for life insurance when the heads of nine companies (including mostly companies not classified as large) testified before the subcommittee late in November. The testimony of the witnesses made a favorable impression on the subcommittee and the consensus of observers was that there will be no recommendations to Congress on the basis of the hearings.

"A subcommittee on investments of the Joint Committee on the Economic Report held hearings late in the year in relation to the influence on the economy of investments made by financial institutions, including those of life insurance companies. The subcommittee's main concern was about the diminishing supply of equity capital for business enterprise and next the failure of the life companies to make loans to small business. The practice of making direct placement loans was also examined. President Lincoln of Metropolitan Life testified that savings through life insurance had a relatively small effect on the diminishing supply of equity capital and called attention to commercial and savings bank accounts, savings and loan association shares and war savings bonds as some of the main sources of supply. He suggested that if small business would come to his company for loans instead of the Government, it would fare better.

"The heads of financial officers of several other life insurance companies testified before the subcommittee. They brought out that many small businessmen are being accommodated through mortgage loans on their properties. All of the witnesses stood staunchly by the companies' practice of making direct placement loans. There was an atmosphere of friendly cooperation as the witnesses sought to help the subcommittee in relation to investment operations.

"Although direct loans to business corporations have been made by life insurance companies for some period of time, no public criticism of the practice was heard until the acceleration in the amount of such loans occurred during the last few years. Direct loans have afforded a simple and flexible means of financing with advantages to the parties concerned in that registration, issue, underwriting and distribution costs are eliminated. The registration provisions of the Securities and Exchange Act do not apply to securities which are not offered to the public, the purpose of the act being to protect investors by requiring registration and full description of securities offered for public sale."

State supervision of insurance was strengthened during 1949, the Life Insurance Association of America was told by Eugene M. Thore. One major example of this is the development in the field of valuation of securities for rendering financial assistance to the State Insurance Departments of four states through establishing competent staffs for the valuation of types of investments not properly subject to valuation on a market or amortalized basis. The states making this enactment—and with the approval and sponsorship of companies in those states—are: Connecticut, Massachusetts, New York and Pennsylvania. The measure provides for an over-all annual sum not to exceed $250,000 to be assessed against the domestic companies of these states in proportion to their securities subject to valuation. "Life insurance companies have thus again demonstrated their willingness to cooperate

fully with the state regulatory officials in the interest of sound supervision of their affairs." A problem of supervision which required the participation of more than one state was solved within the framework of state regulation. Another example was the enactment of the "Unauthorized Insurance Service of Process Act" in 15 states and by the adoption of fair trade practice acts in five additional states making 24 states with this law. Approved as a model draft by the Commissioners only in December, 1948, the former is designed to provide more adequate state regulation of mail order insurance. Under Public Law 15, the Federal Trade Practices Act now applies to the business of insurance to the extent such practices are not regulated by state law.

Following the earlier examples of Rhode Island, California and New Jersey 1949 witnessed a marked and increasing interest in sickness compensation to workers. This subject will grow in importance. Most "cash sickness" proposals introduced this year failed of passage but two sickness compensation laws were enacted one in Washington and the other in New York. The former will not become operative unless approved by a majority of the voters at the general election in November, 1950. The law authorizes private insurance companies to provide the benefit in competition with a tax-supported state fund but under conditions which discriminate against private insurance. On the other hand, the New York law permits private insurance companies to compete with a State Insurance Fund operated pursuant to insurance principles.

The Commissioners' Model Draft for the regulation of Group Life insurance, with variations therefrom in some states, received legislative approval in Arkansas, Florida, Hawaii, Maine, Nebraska, Pennsylvania and Wisconsin.

One of the important legal decisions having particular interest to life insurance companies, was that of U.S. Supreme Court in the case of Connecticut Mutual vs. Moore. This upheld the constitutionality of the New York Unclaimed Funds law relating to life insurance and provoked considerable interest in similar laws in a number of states. As the Supreme Court's decision left unsolved several important jurisdictional problems, a model draft of an unclaimed funds act has been prepared for use in states where a strong demand or need is apparent for legislation of this type. In 1949, the model draft was enacted in Connecticut, North Carolina and Pennsylvania.

In the investment field legislation permitting investments in income producing real estate was enacted in the states of Idaho, Nebraska, Nevada, New Hampshire, North Dakota and West Virginia, making a total of 38 states where life insurance companies may utilize this new outlet for investible funds.

Discussing the Celler and O'Mahoney inquiries into insurance, its investments and its "power" Mr. Thore said in part: "It is sufficient to say that in the appearance made by life insurance executives before the latter committee our business has demonstrated a complete willingness to cooperate fully in the studies the committee has undertaken. It is further believed that, so far as the hearings before the Celler Committee are concerned, it has been amply demonstrated that life insurance companies, both large and small, are engaged in the keenest

competition and that no monopoly exists in the business of life insurance." From a survey on consumer finances made by the Survey Research Center of the University of Michigan for the Federal Reserve System and made available to the Institute of Life Insurance for the analysis of the life insurance information, it was found that American families at practically all income levels average about the same percentage of income going into life insurance premiums.

All income groups from those earning $2,000 to $2,999 up to those earning $7,500 and over showed averages between 3.3% and 3.6%. Only those in the very low income groups showed higher percentages, the basic premiums naturally bulking up to a larger portion of the very small incomes. Those earning $1,000 to $1,999 averaged 4% going into life insurance and those earning under $1,000 averaged 8.7%. The latter group, however, is made up extensively of single persons living in families, but semi-independent, many who have non-cash income sources such as farmers and those provided room and board, retired persons, part-time workers and many of those temporarily unemployed.

The average portion of income before taxes put into life insurance of all types last year per spending unit in the United States was 3.6%. This average, applying only to insured families and covering all types of life insurance, differs from the 2.9% of total national income which legal reserve life insurance premiums represent.

There was a sizable proportion of families where the ratio was higher. Expressed in proportions of disposable income after taxes, some 6% of those carrying life insurance put 9½% or more of their income into life insurance; 21% used 4½% to 9½%; 12% used 3½% to 4½%; 16% used 2½% to 3½%; 19% used 1½% to 2½%; and 26% used less than 1½% or paid no premium on their insurance. Except for the extremely low income groups, this same general range of income use applied to practically all income groups.

The average premium paid for the life insurance owned last year by the spending units which paid premiums was $140. Some 4% of the insured families paid $500 or more in life insurance premiums; 12% paid $200 to $499, 26% paid $100 to $199; the rest paid under $100 or no premium. There were greater differences in average premium paid by income groups than percentage of income used, as naturally the same percentage applied to varying income groups would show larger premiums as the income increased. Those earning $7,500 and more, for instance, showed 2% putting 14½% of income or more into life insurance, the same as in the group earning $3,000 to $3,999; and yet the higher income group showed 24% with premiums of $500 or more, while the smaller income group showed only 2% paying premiums of this size.

Possibly the developments of the year of greatest importance in the life insurance and allied fields were the union drives for increased insurance benefits and for pensions, especially in the automobile, coal and steel industries. This is of importance to the life insurance industry because in the past it has supplied by far the most of the insurance protection through group life and group sickness insurance and has guaranteed many of the pension plans of industry. And the companies except

that their coverage will be greatly extended. Of course the problems are fundamental also in the federal social security plans and at least the pension funds are of vital interest to banks and other organizations who act as trustees for some of the larger pension funds. One may have the deepest sympathies with the current desires and efforts to attain security but yet realize that the problems far transcend any industry's interests and will become of vital interest to everyone in the country, not only as to which individuals will possibly receive pensions but because of the possible effect on the whole economy. Part of the danger is that no one person can grasp the full significance and not very many even realize that the problems may be serious.

Harold E. Stassen, president of University of Pennsylvania and former Governor of Minnesota in addressing the Life Insurance Association of America recently said:

"The odds are that you are going to go ahead throughout all of industry in a pension program. Now, there are values, there are needs in pensions, in arrangements for the aged situation. Much of your whole psychology in the building of the life insurance industry is related to the same fundamental human emotions and concern. Clearly, also, it can become devastatingly dangerous to the whole economy if it is not well handled."

What is the answer? We can sit back and say that the only possible way this pension objective can be finally established is through the Government taking it over, through the national, governmentally operated pension fund and the fixed benefits for all. Great problems would then ensue. There must be another way.

"We see the difficulties of the funding operations of individual companies, the problem of transferability, the problem of the amount of funds that get to be tied up," he said. "We see the difficulties of funding in terms of insurance companies, and the total amount has been placed for funding this $100 a month pension requirement as something upwards of two hundred billions of dollars. Where could such a fund be invested? What would it do to the value of those one hundred dollars and all the other dollars and insurance commitments in the country?

"If we intend to bring all these funds and all these commitments in the hands of Government, you pyramid the centralized power of Government over all industry and all finance, and all the people, to a dangerous degree. If you seek to fund it into all non-Government approach, you pyramid it into a fund that is difficult for us to handle. . ."

In an address sponsored by the Illinois Chamber of Commerce, Frank Griffin urged that pension commitments be made on a feasible basis. "The question of universal pensions gets back to basic economics. How much can we afford to pay to how many, from the productivity of active workers? Pressures are building up to take care of employees under pension plans. Something must happen to maintain the financial balance, whether it be long term inflation, or the adoption of later retirement ages, or through continued increase in production through improved methods and efficiency."

Disregarding the problems of how pension plans can be paid for or funds invested even if raised, it appears illuminating to consider the "basic economics." It is assumed that what the prospective pensioner

is interested in is not $100 a month but how much food, clothing, shelter, and other necessities and pleasures may be available when needed. These are mostly goods that cannot be stored up long in advance but must be produced in the long run as they are used. It is assumed that the present drives are intended to distribute a much larger proportion of these goods to the aged. At present there are about eight persons of working age to one past 65. But it is estimated that in 25 years there will be only five of working age to one above 65. What proportion of the population is going to support the rest and how hard are they going to work?

In a recent address in the same vein Holgar J. Johnson said that the public must be given a clear understanding that the fulfillment of pension plans on the scale projected in the current drive is tied up with the productivity and progress of the American economy. "Right now, popular interest is concentrated on the growing demand for pensions. To avoid future disappointment of those who expect to receive the benefits and the inevitable effect of such disappointment on the individual and social fibre of the country, he emphasized that the plans adopted must be sound individually, and in the aggregate must be based on a premise of sound economics. He declared that the matter of pensions is now part and parcel of the whole question of the nation's future obligations. Thus the financial burdens placed on the people and on the economy must be recognized, and taken into account as a charge against the productive capacity of the nation in the year ahead.

"The cost can not be produced by any sleight of hand, or magic wand. It must come from the people and the productivity of the economy if sound results are to be achieved. To ignore this truism is to court disillusionment and disaster." With regard to the ultimate cost, he pointed out that the type of pension plan established is important — whether they are insurance plans, trusteed plans, or self-insurance plans. Some demands, because of the inherent problems involved, can probably only be met on a "pay-as-you-go" basis, which means pensions if, as and when they can be paid. In all cases, the spotlight inevitably focuses itself on what the people and the economy can produce and pay for if the pension promise is to turn into performance."

If the average family income is to gradually increase to $12,000 yearly by the year of 2000 and if the purchasing power of the dollar remains essentially unchanged, some of these problems will not be difficult as now appears.

Perhaps the most prominent news items of the year of importance to life insurance that might be classified still as "unfinished business" are the revision of the Federal Social Security Act, the question of to what extent and how insurance agents will be covered by it, the Administrations national health program, the efforts of the Federal Trade Commission to draft regulations to govern all "mail order" insurance and revision of the Federal Income Tax law covering life insurance companies. The Social Security developments are covered in the accompanying reveiw by Mr. W. R. Williamson. Final decision on the "mail order" regulations has been expected but may be awaiting the outcome of the legal efforts of Virginia to require a Nebraska concern to obtain a corporation commission's securities license in order to sell its policies in Virginia.

Property and Casualty Insurance — 1949

by

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For the first time since the war, the year 1949 seemed to present from the standpoint of the property and casualty insurance business most of the aspects of a so-called normal year. The problems which had vexed this portion of the insurance field in the years immediately succeeding the war—Public Law 15 and state regulation, lack of capacity, inadequate reserves and high loss ratios—seemed by the end of 1949 for the most part to have faded into the background.

Perhaps the most normal aspect of all was the return of competition to the property and casualty business. For a number of years following World War II, business was increasing at so phenomal a rate that all participants in the property and casualty field were hard put to perform their functions with available man power and capital. But, by the end of 1949, all this had turned about and the familiar aspects of competition—price cutting for acceptable lines in competitive fields like Automobile insurance, offering of excess commissions by companies in the highly competitive New York brokerage market—all marked the return of the insurance buyer's market.

For the most part, this was a healthy situation, long overdue. It meant the resumption of experimentation in new forms better adapted to public acceptance—like the 6 months' renewable Automobile policy being offered by one insurance group. It meant reduction in insurance costs, as better advisory services in fields like fire insurance encouraged a decline in loss ratio. And it meant a greater concern with the social aspects of insurance, with advent in growth of new forms of coverage like off-the-job temporary disability benefits coverage put into effect in New York and three other states.

Property Insurance

In the Property insurance field, two principal problems were encountered during 1949. The first had to do with rating of interstate fire insurance risks; this was a hold-over from the preceding year. The second was the beginning of what might become a far-reaching inquiry into the whole theory of term policy discounts.

When the new rating laws were put into effect state by state in the years following World War II, the only problem remaining unsolved was the rating of interstate risks. The principal problem which arose had to do with the insuring of the contents of the buildings. It was necessary to determine an equitable yet adequate rating system which would operate within the framework of the new state laws. For, "where the state governments fail to exercise proper jurisdiction, the federal government may be forced to supervise."

Prior to 1948, the rating of this type of business had been handled through the Interstate Underwriters Board and similar organizations

for insurers not belonging to that association. While the I. U. B. always claimed that it was not a rating organization, it computed a single country-wide rate for each risk on the basis of values and applicable rates in various locations, and filed this rate in state jurisdictions as necessary. Member companies, under the guidance of the Board, issued master policies on interstate classes through certain designated offices equipped to handle this class of business. The companies then issued underlying policies for each state containing locations insured under master policies. Overriding or countersigning commissions were paid to the companies' duly licensed agencies in each state.

When Public Law 15 made necessary an examination of the handling of interstate risks by companies and insurance commissioners, it was recognized that since rates were originating from the Interstate Underwriters' Board, its operation would have to be aligned with the requirements of state rating laws. The Interstate Underwriters' Board operated as an advisory organization by the desire of the companies. Many of the statutes and safeguards applicable to rating organizations did not apply to it. It was felt that if the law said that rates were to be made by rating organizations, they should not be made by advisory organizations. So, in July, 1948, the I. U. B. had notified its members that advisory rates would no longer be quoted. Many interstate risks were placed under binder by insurers at that time, and the year 1949 saw this practice continuing with no rates as yet established.

The committee which had been assigned by the insurers to study this problem was headed by Mr. Ivan Escott, an official of a leading fire insurance company. After many months of deliberation by the committee and the interests with whom it met, the New York Insurance Department on September 1, 1949 approved the rcommndations of this committee for the adjustment of country-wide averages of specific rates on individual locations. The adjustment provided first for insurance on a 100% coinsurance basis and, second, for a limited debit or credit adjustment in rate in recognition of loss experience of the individual, multiple-location risk during preceding years. The loss experience period for fire insurance was set at 5 years, and at 10 years for extended coverage, vandalism and malicious mischief. The number of locations to be insured was, under the plan, given consideration in determining how much weight would be given to the loss experience of the particular insured and to the class to which the risk belongs.

Although late in the year certain groups of companies maintained legal action against establishment of this plan, it has already been adopted in a number of states. It is to be hoped that out of it will come some form of multiple location rating suitable to all insuring groups.

TERM RATE CREDITS

1949 also saw questioning, in the property field, of the time-honored custom of granting discounts when insurance is written for a term of more than one year. The discounts granted in the fire insurance business are typical of this practice. Here, following tradition which can be traced bac kto English practice of more than 300 years ago, insurers in most jurisdictions grant term insurance protection for 75% of the one year rate for each year succeeding the first.

Aside from tradition, a sound economic argument can be given for this practice. Elimination of yearly bookkeeping makes possible substantial savings in renewing the business. Too, reserves which are set up on term business make possible considerably longer range planning on the insurers' investment programs, and affect the whole financial structure of the insuring organizations.

Early in 1949, a major fire insurance company organization, operating in several southeastern states and known as the South-Eastern Underwriters Association, adopted a plan providing for installment payment of three and five- year term fire business The installment premiums were to be equal to one annual premium for the first year, then provided for a reduction of 20% over the one year rate plus a service charge for each succeeding year of the term. The plan grew out of insurance producers' requests for a competitive weapon against similar term payments already established by a few companies.

This action brought a storm of protest from the insurance business. The principal argument was that the plan provided in effect a deviation in rate equal to the percentage reduction in exchange for a so-called handling charge of 3% spread over the term of the insurance.

It was also felt that the plan would unnecessarily burden each step of the insurance process from producer to insurer. Since the great majority of property business is written for a term of three or five years, many people felt that the term payment plan would require three to five time as much clerical work in handling this business, while bringing insufficient additional income to compensate therefor. Potentially this could have far-reaching effects on production costs.

For these reasons the term installment plan was opposed by a principal insurance producing group, the National Association of Insurance Agents, and it consequently has been established in only a few states. However, the justification of the time-honored custom of the term premium credit has now been brought in question; the year 1950 will undoubtely see further inquiry.

Experience

In almost all lines in 1949, the experience of the property and casualty field was good. In general, production records were realized in all fields. The almost solitary exception of this was ocean marine, where declining foreign trades has been followed by a decline of considerable extent in marine writings. Marshall Plan aid was reduced in 1949. Also, the dollar gap widened with most countries who trade with America, and these two factors were responsible for the difference. But at the same time loss ratios improved slightly for an all-over reasonably satisfactory year.

The gain in casualty premium writings, for the first time since World War II, was modest. The major growth of casualty premiums continued to be in the automobile lines. Automobile liability and property damage alone stood at well over $1,000,000,000 for 1949, about three times the volume of 1945.

The continued growth of miscellaneous liability lines was a noticeable feature of 1949. The trend from simple owners', landlords' & tenants or manufacturers' and contractors' liability to comprehensive general

liability is picking up speed; it is to be expected that 1950 will see further increase in this growth.

Inland marine writings reached an all time high of more than $250,000,000,000 in 1949. This field is more affected by the new state regulatory laws than perhaps any other in the property and casualty field; the integration under the new laws has been smooth, and changes in regulation necessitated thereby have not impaired the ability of the business to continue to grow.

The inland marine field continues to study the problem of developing sound actuarial statistics. Although the nature of inland business is such that at no time in the foreseeable future will it be practical generally to substitute actuarial procedures for sound underwriting judgement, the need for the development of sound statistics is recognized. Uniform accounting, new to the inland marine field, will continue to develop more intelligible figures, particularly as regards expense factors.

The fidelity and surety field is peculiarly affected by business cycles outside itself. Reflecting the generally favorable business conditions, this classification enjoyed a good year. It showed a slight increase in volume, principally as a result of improvement in the contract field. It is believed that the reserves now being accumulated are adequate for any foreseeable decline in business activity, with consequent increase in the fidelity and surety loss ratio.

The leveling off of production, together with an improved loss ratio, made possible substantially improved profit ratios for insurers in 1949. Generally, it was the most favorable in a decade, and as such did much to offset the unfavorable losses of 1946 and 1947.

Fire insurance losses declined from an all time high in 1948 of $711,000,000 to $667,563,000 in 1949. This was a reduction of 6.1%.

Insurance Education

In the property and casualty field, the most significant educational growth during 1949 continued to be the Chartered Property & Casualty Underwriter movement. First started in 1943, 2,194 examinations were given last year, an increase of almost 50% over the preceding year. The CPCU designation was awarded to 106 persons in 1949, as against 66 in 1948 and 58 in 1947. This education of the insurance business itself, for the purpose of attaining professional status for its members, was progressing at good speed.

New Coverage Changes

Perhaps the only really significant new coverage developed in 1949 was the all risks dwelling policy, developed by mutual insurance producer groups. This policy is patterned in idea at least after policies long in vogue in England. It is designed to provide, in addition to the customary insurance against fire and other physical damage to the dwelling and contents, coverage in the same policy against liability and crime loss hazards.

This development was foreshadowed several years ago in the development by at least two groups of insurers of a combination residence policy. However, these combination residence policies have been written simply as a combination of the existing policies. No really new policy was written. This new devolpment projects the construction of an entirely new type of contract, written through the now legally permissible

multiple-line type of companies. As an enlargement of the trend toward simpler insurance policies, it marked a significant step.

The new all risks dwelling policy was in the course of development throughout the whole of 1949. It was expected to be actually put to use early in 1950.

The only other significant policy revision was that of a garage liability, revised and simplified late in 1949. The principal changes were to make blanket additional interests coverage an automatic and standard part of the contract, and extension of the storage garage and service station coverage to include product liability insurance and at least a partial exclusion of the so-called "crankcase" property damage claims which have been a source of argument in the business for a number of years. While there were minor changes in both coverage and rules, the policy was revised and improved principally in language along the lines of automobile and other liability policies already in effect for some time.

Over-all Picture

Perhaps no one aspect of the property and casualty field in 1949 so significantly reflected its increased prosperity as the increased public interest in stocks of companies active in this field. The so-called triple squeeze of two years ago — huge statutory underwriting losses, skyrocketing unearned premium reserves and plummeting stock market —underwent a complete change. Catastrophe, too, was conspicuous by its absence. The result, for the first time in almost a decade, was an almost unvaried showing of excellent financial stability in year-end financial statements.

Demand for shares of insurers organized on a stock basis continued to rise throughout the year. In these groups, a number of leading insurers revived the practice of stock dividends to avoid impairment of working capital while still rewarding, in some measure, those who had ventured capital in the enterprise. Others increased dividends. Insurance stocks as a result took a long step forward in regaining investor favor lost during the previous six years. Those organizations operating on a mutual basis increased their dividends returned to policyholders; a few reduced rates.

Broad rate decreases, reflecting the lowered loss ratios, were at the end of the year in the offing. It was expected that 1950 would show a much closer margin for the business generally.

Social Insurance

by

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I. THE WELFARE STATE:

As we enter this last year before reaching the mid-point of the twentieth century, there is a quickening in the tempo of the debate as to whether Social Insurance, or its alter ego, the Welfare State, is hero or villain.

On the hero side have been lined up the President, the stalwarts of the Federal Security Agency and the Social Security Administration, headed respectively by Oscar Ewing and Arthur Altmeyer, Secretary of Labor Tobin, a small but vocal chorus of labor leaders, a small number of important, sadly harassed, employers, anxious to postpone the foreclosure of the mortgage, and another handful of liberals, dating back to the days of the Committee on Economic Security of 1934-5, a bit nervously repeating the lines they had then whipped together for opening night.

On the side that dubs the Welfare State villain we have the "loyal opposition" of such folks as ex-President Hoover, "Jimmie" Byrnes, University Presidents Eisenhower and Stassen, Economic Advisor Nourse, Vannevar Bush, Donald Richberg, Human Events, the Foundation for Economic Education and a small quiet voice called the Wall Street Journal.

II. AS HERO.

The hero role is a bit reminiscent of the old stock company and its 10-20-30 melodrama, where, were it not for the props, the billing, and the strident declaration of virtue, the tarnished tinsel and the hangover breath would rouse the suspicions of even the non-critical bucolic audience. We are constantly informed lately it so happens, that the proportion of the agricultural population is shrinking. There are to be more city slickers in the audience.

1. *Old-age* and later, Survivors.

The concern for the aged which was one of the strong supports for Social Security in 1934-5 has been summed up for posterity in "Social Security in America"—a 1937 publication of the Social Security Board in behalf of Edwin E. Witte and the Committee on Economic Security—"the factual background of the Social Security Act as summarized from staff reports to the Committee on Economic Security." Carefully edited and indexed, the thesis of great need among the aged ran into the concomitant theses of the 'stagnant backwash of laissez-faire,' the growing insecurity of the worker, his inability to choose and save and plan for himself, the need of regimentation to replace 'self-starting.' The thesis looked more plausible then than it does now, with high savings, high incomes and tremendous purchases of both luxuries and luxurious necessities. The facts of need were then elusive. The last comprehensive tale of the poorhouse population was told in 1923. The population then

was perhaps 80,000, including some under age 65. But the outraged sense of need was, after all, a curiously detached affair. There was set up, and there still continues, a triple answer to the need:

(a) Old-age Benefits, on a contributory basis, taxes to be paid by employees and employers of most of industry and commerce, dealing with over half of the active employment of the country, perhaps. Collecting taxes was to start in 2 years, paying benefits in 7 years.

(b) Old Age Assistance, to furnish Federal funds to those who were needy by the variable state standards, a system said at the time to be a fill-in measure.

(c) Laissez-faire for those already old, with resources of self and family sufficient so that they did not seem 'needy' in the State's valuation, a valuation variously affected, however, by the State's own view-point, and further affected by the availability of the Federal funds.

In 1939, after some serious questions had been raised as to the correctness of the structure of the system, the question was rather sidestepped by adding to the retired aged employees their aged wives and widows and young children, also orphans and their widowed mothers, made such by the death of 'insured' employees, alternately, the dependent aged parents of such deceased insured employees. This solution of a major problem was the continued exclusion of the aged persons whose exclusion had caused the reserve problem. The name assigned to this exclusion, this deferment, was Old-Age and Survivors Insurance.

In 1950, as OASI has run 10 years, in addition to the 3 years as Old-age Benefits, among persons aged 65 and over, who number 11,500,000 —we think—about 2,000,000 beneficiaries, ex-employees, wives, widows and surviving dependent parents are drawing benefits from OASI. There are 2,700,000 such elderly persons drawing benefits from Old Age Assistance (OAA), perhaps 200,000 of whom also draw Old-Age and Survivors Insurance benefits. There may be 300,000 in institutions. There are then 4,800,000 persons, essentially on relief, since not even the OASI beneficiaries have paid any significant part of their own prospective benefits as contributions. Perhaps the average contribution may be 2% of the prospective benefits. Of the remaining 6,700,000, it appears that perhaps 3,500,000 are supported by work in the labor market. 3,200,000 are either too thrifty or too honest or have too cooperative families, to permit them to collect assistance from the public funds. For what it is worth, it seems that less than half of our elderly citizens are receiving charity.

The average payments under 'insurance' are $300, under 'assistance' over $500, of which $300 represents Federal funds. About 1¼ billions are paid from Federal funds, 2 billions from Federal, State and local funds. The 2 billion represents about 1% of the 1949 National Income.

Orphan children and children 'sort-or-orphaned' by deserting, disabled, ineffectual, benefits-conscious, or just plain chiseling fathers, number around 2 million, which with some 150,000 widowed mothers (beneficiaries under OASI) make up 2¼ million beneficiaries of 'insurance' and 'assistance.' They draw about ⅝ billion in benefits, about ½% of the 1949 national income.

Together the two groups represent about 1¼% of the National Income. The 75,000 needy blind, whose benefit status under Federally-subsidized Public Assistance represent a tiny recognition of extended disability benefits. Their total benefit receipts are so small as still to leave the total at 1¼%, for the three categories.

The hero-worshippers declaim against living-costs, the unmet needs, the lack of funds for benefits. They persist in stressing the virtue of the little hero, OASI, who has spent less than ½% of the national income this last year—by the simple process of barring from benefits today's aged. OASI neither meets today's needs today, nor does it promise to make it any easier for our children to meet tomorrow's needs tomorrow —when they become much larger.

H. R. 6000, the current bill, now under consileration in the Senate Finance Committee would raise the current OASI benefits now being paid from about $3[illegible]0 about $500—averages in both cases. This $500 would be about the same as the average now being paid in Assistance—and assistance can be expected to rise as more funds are provided by Congress to help the competition between the two groups. H.R. 6000 also plans to double the prospective new benefits of the next five years, and while then providing for some reduction in some cases by a continuation factor, there would be little likelihood that such reduction would really become effective in the election year, 1956. The new category, extended disability, sets up such stringency of bnefit, that it would be logical to expect prompt effort to liberalize the benefit. It removes the limitation of lump-sum settlements in the ⅙ of the cases where there is the greatest need of insurance, where there are small children. It is more logical than the former situation, and of no financial significance whatever. Complexity of rules is greatly increased by two alternative 'starting dates,' the continuation factor, the change in formula, and other departures from simplicity.

The hearings before the House Ways and Means Committee were on the predecessors, the assistance Bill H.R. 2892 and the Insurance Bill H. R. 2893. They lasted two months. The bills were somewhat more liberal than H.R. 6000, and included extension to temporary disability, and added a fourth category of General Assistance for Federal subsidy. The opposition perhaps agreed fairly well on the errors in the bills, but not at all on how to cure those errors. Agreement for the improvements of H. R. 6000 was secured by the House through holding a two-months executive session, with only the Social Security Administration present. The sense that the 201 page bill was tied together with strings may have been responsible for invoking the closed rule, forbidding amendments. One brilliant speech on the floor of the house, during the debate on the closed rule, summarizes important errors of ommission and commission in the bill, and can be of great value for a Senate rallying ground. Before the vote for the legislation with only 14 votes against it, it was pointed out by a far-from-disinterested person that a vote against the bill was a vote against the under-privileged and for the entrenched insurance interests, and that the vote would be watched closely by labor. The 2500 pages of recorded testimony carries some valuable points. It is also noteworthy how few disciplined, informed persons exist who are

sufficiently free from entangling alliances of some sort so that they can appear as citizens in such a hearing.

In the current presentation of the Social Security Administration before the Senate Finance Committee, in January, 1950, Commissioner Altmeyer claimed that the one accomplishment to be credited to his Administration wts the abolition of the old-fashioned poor-house. A Missouri legislative committee, 9 years after the enactment of the Social Security Law of 1935, found that in those 9 years there had been a considerable net growth in the poor-house population, after a temporary diminution at the start. Senator Taft the day after the claim of abolition said at the hearings that County homes for the aged were still functioning in Ohio and were well-managed. Another witness said that some of his fellow-union pensioners found asylum in the poor-house in Massachusetts. We shall have to wait for the 1950 Census returns to be completed before the degree of abolishment is clear. As against the 1923 population of 80,000 in the almshouses, an institutional population of 300,000 and an assistance beneficiary list of 2,700,000 seems to show pauperism far from abolished.

In response to the extolling of the virtues of 'insurance' and 'contribution' thereto of Commissioner Altmeyer, Senator Taft stresses the small resemblance of OASI, with its handouts, and very slender amount of contributions, to the contracts and premiums of individual insurance. A former Assistant General Council of the Social Security Board, in a television show in Washington, D.C., about that same time, won a 10 to 2 verdict against these pretensions as ineffectually defended by Dr. Altmeyer. The contribution of less than 5% of the cost of these benefits seems not particularly character-forming, while the frequent disqualifications from getting any benefits furnish the blanks in the lottery. This Santa Claus seems cynically whimsical, and those who are out-of-luck by missing benefits are usually those who most need them.

As this is written in early February, the Social Security Administration has completed its direct presentation to the Senate Finance Committee, though it continues to stand on the sidelines prepared to service the Senators. (It has been the intention of this organization over the years to build the hero's personality and the process has been rather successful—lacking a vigorous opposition. It has to be remembered how far these systems get, and that it is hard to retrace the steps in Australia and New Zealand, harder still in England. It is well to recognize why further progress toward the Welfare State should be checked here to save us the painful process of more difficult return, later, when at last we are awake.)

This reviewer took his turn at 'setting the Senators right' on the subject on January 30, 1950. He insisted that the OASI structure kept it from effectiveness, that it copied the fatal Bismarckian State Socialism, that a better social budgeting approach was necessary, and that competent qualified persons should study the problem. Other witnesses brought out other defects. Several dwelt on the monstrous record system. Monsignor O'Grady of Catholic Charities said we should deal with the aged now, and that lack of policing, and two easy money has made Public Assistance demoralizing. The Federal government should get out of Assistance and let it go back to the communities where they

know how to service it. Dr. Shearon, among other points, also recommended a true pay-as-you-go now, showed the serious temptations facing the Social Security Administration, the discriminations against women, the sad lineage from the Iron Chancellor's plans, the taint of centralization. She demanded repeal of much of the Social Security Act.

Over a month of further hearings lie ahead. There will be more constructive criticism, more white-washing, some unwise tolerance of evil.

At this point the hero's halo is tarnished and askew.

2. *Employment Security.*

Here the hero role can claim a steady trend to bigger and better individual benefits and high aggregate payments—in a time of relatively full employment. There are increasing benefit rates, upturns in formula with both higher minimums and maximums, more recognition of dependents, increasing duration of benefits and reduction of waiting periods. The policing is weak. The benefit levels for single employees are too high—clearly a temptation to getting them. When benefit rates are readjusted, the variation by family size should be by reducing the single man's benefits first. Although the Federal hero-worshippers would still like to make the system Federal and reduce the healthy diversity among benefits, no obvious progress toward this goal has occurred. The cry of "wolf, wolf" at the war-end, when the wolf did not come, is still remembered. Yet the structure of the benefits, and the too-liberal benefits, is apt to make the state plans vulnerable to a new major depression, when all have learned to work the system. When employers use work-sharing, in a deep depression, the reserves can be expected to melt rapidly. In the 1938 recession the small qualification for benefits should make a great contrast with the situation when about all workers have benefit rights.

The strength of the hero is yet to be tested. Some villainy may have been spared by having state rather than Federal direction.

3. *Medical Care.*

"The Nation's Health" by Oscar Ewing, Administrator of the Federal Security Agency, urging a Federal program of Medical Care 'insurance', has been incisively reviewed by both Paul Hawley and Frank Dickinson. They note in the report the same fragility in the statistical base which has been so evident in other reports from this Agency. The claims of ease of administration also glide swiftly over many doubtful matters. That deferment of current effectiveness hampering OASI is also promised here.

The assurance of the would-be managers that none of the socialism of the British—or of Europe—will touch our program has a particularly hollow ring. The John Flynn story of the Road Ahead to more centralized Federal power, following the Fabian pattern of England suggests too close a parallel for comfort.

The quotation ascribed to Winston Churchill about putting the law of averages to the service of humanity is quoted without the irony of its ineptness registering. It turns an expedient wise-crack into a phony maxim.

Because there are catastrophic cases of medical care outlay seems to this reviewer no sound reason to route all the trivialities of such care through a national program. Both University President Stassen and Senator Douglas have suggested the possibility of limiting Federal cost-

sharing to the big bills. The Metropolitan Statistical Bulletin's recent listing of catastrophes which kill 25 or more showed but a half-dozen in each of two years. The Red Cross could deal with a few such situations easily. So, should we carry on sampling to find the extent of the truly heavy burdens — say 25% of a year's pay — we might find that we could create an insurance agency for that specific purpose. Or we might add these catastrophic cases to a reorganized Federal program designed to pay benefits instead of sidestep them.

The placing of these health bills in a different Senate Committee than the rest of the Welfare State legislation seems an effort to escape the adequate financial review of the Senate Finance Committee. The too-frequently expressed scorn of the Medical Profession has shown an unwillingness to face the technical realities of the need for cooperative discussion. Both the Medical and the Insurance professions question the wisdom of Federal Health Insurance. Today a Gallup poll indicates majority disapproval among informer citizens. The small entering wedge of medical care for Assistance beneficiaries in H. R. 6000 reopens the need for such study as Brookings has started.

4. *Temporary Disability—Cash Indemnity*

The Rhode Island State plan for paying benefits — tied to the Unemployment Insurance Administration (largely perhaps because of the accident of an employee contribution toward the Unemployment Compensation benefits, piled up as a bank account) was modified in its handling in California and New Jersey. There existing insurance company protection was conserved, and a technical know-how brought into the administration that had been lacking in Rhode Island. New York went even further, in linking the administration with that of Workmen's Compensation. It is reminiscent of the recent linking of workmens compensation and non-occupational accidents in Guatemala. Whether or not we like this extension of Government insurance and insurance compulsion and supervision, and there are many who do not, the use of State, rather than Federal direction, seems at least the lesser evil. More states are in the process of considering the matter, and it is to be expected the pattern of 'contracting out' will be continued. The state has more in the line of checks and balances, and seems apt to have more of technical direction than the optimistic Federal Government. Workmens Compensation has not usually been called Social Insurance in the United States. The nomeclature of the new plans is not clear, as yet.

5. *Extended Disability.*

The appeals of budgeting for our personal responsibilities through the national government come, perhaps, from a recognition that *there are* catastrophic situations, like death and years of survival in jobless old age, extended periods of unemployment that can be either economic cyclical episodes or purely personal maladjustments—or both. Extended periods of unemployment because of disability resulting from either accident or serious illness do not wait for the arrival of age 65. They seem a bit like premature old age, like a living death—like long-duration exile from the sane world of working men. Clarity of definition is hard to get. The administration has been thorny, because it runs into economic maladjustment on the one hand, into malingering and pathologic trouble on the other. The convictions of men in the insurance

companies who had trouble with it in the last depression show some lessons learned, but not enough. Physical and Vocational Rehabilitation —and just straight common sense—are of course the services to lead us out of unnecessary extended disability—but there is disability. How much of it exists we do not know.

H. R. 6000, calling this thing Permanent Total Disability, uses the terms in a hopeless fashion. It is rarely total, nor usually permanent. H. R. 6000 recognizes it, exaggerates its importance ,and at the same time minimizes its possible costs, should the negations of the name really take hold. It adds benefits — as in old age — both under the 'insurance' with its denials an deferments, and under the 'assistances' with its slack policing and its over-generosity.

Like the inclusion of survivors with Old Age in 1939, to deflect attention from the need for directness in dealing with old age benefits then—so the addition of Temporary and Extended Disability Benefits under H.R. 2893 in 1949 and later the Permanent Total Disability Benefits under H.R. 6000 seems intent upon deflecting attention from direct handling of old age now, in 1949 and 1950.

There is merit in dealing with the catastrophic in life—as in life insurance—and Red Cross and Community Chest activities. But adding Extended Disability to OASI is like piling minarets over shaky foundations.

6. *Divisive Groups.*

The big unions, with John L. Lewis, Philip Murray, Walter Reuther, and others, have taken another laboristic bull-by-the-horns attitude, and are building up demands for fringe benefits as representing more 'across-the-board' personal compensation. They officially look down their noses at unilateral arrangements where the employer gives the employees the benefits without being asked for them. That was too paternalistic. They laud instead other unilateral arrangements, where the union leaders have decided what they want for the employees from the employers, and then exert sufficient pressure — sometimes through governmental assistance — to enforce their demands upon employers.

When we examine the coal industry, we do not find that either the public welfare nor the employee welfare has been noticeably served by the arrangements. As a strike impends in the telephone business, where a beneficent paternalism has long functioned, the public is again concerned with the power of one divisive labor group to hold up the consumer by weighing the main component of labor cost, and thereby increasing prices.

The Railroad employees got their way long since, with special Presidential sanctions, so that a special Governmental Agency was created, outside of the general Social Security Administration. The Federal Civil Service Pensioners, numbering 100,000 in mid-1948, seem in retrospect to have contributed only 11% of their own pensions. With all their special privileges of more-than-normal annual leave, sick leave, early and liberal retirement benefits, their vigorous opposition to inclusion with other citizens in a cooperative program of Old-age and Survivors suggests they would rather not have such special privileges too closely analyzed. The armed services have retirement allowances available at as early an age as 38. Among their other fringe benefits, medical care

for themselves and their dependents — with much longer residence in the hospital than has been customary for civilians is suggestive of what happens when things 'seem free'.

The recent addition of these special benefits to the somewhat variable benefits from OASI, so that it might encourage the employer to follow the collusion between the Railroads and the unions to transfer more responsibility to the Government schemes, is typical of the divisive influences which nevertheless add to the clamor for more Welfare State.

7. *Summary*

The common denominator of all these plans is an underscoring of the bargain, the subsidy. This has been "the nigger in the wood-pile" since Bismarck and the dual subsidy that grew up in Germany from employers and the State. The method is called "tripartite finance." The emphasis upon the value of the contribution by the employees commonly seems to imply that without this token personal tax, he would expect all the benefits free. So the virtue of nominal self-help overshadows the vice of heavy subsidy. The availability of the opportunities for personal help, the bank, the insurance company, the building and loan shares, the Federal savings-bonds, the ownership of real estate are largely ignored. The recent emphasis in the 'welfare plans' for 'just the subsidy, please' might be logical if these benefits were regarded as 'fringe' around the sound basic fact of personal responsibility, and the desire to use one's own money with greater freedom. It is also rather logical and potentially cooperative if the new emphasis upon the benefits given against the heavy pressures should mean that the blank cents an nour mean that the working force willingly contributes from their money to the senior members. This would become an advanced type of personal sharing.

Extending such cooperation to the whole citizenship would mean that all of us working and earning would freely transfer from our earnings to those in serious presumptive need, and since there are many more working than loafing, 'giving' would exceed 'getting'. Perhaps the aggregate of individual attitudes rising from the Welfare State might be heroic.

III. AS VILLAIN:

But it is not yet clear that the mature and logical position of the last two sentences does represent the thinking of our citizens upon Social Security and the Welfare State. It rather looks as though the main appeal of the Welfare State has been and continues to be "you get more than you pay for." It continues to be the lure that the wealthy and the big employers will foot the bills. As men make more money and could take responsibilities, they instead ask for more from others. On the other side of the ledger:

1. The over-all sense of a bargain—low costs—comparable to the assessment companies of the 70's.
2. The individual Santa Claus concept—a purely token contribution of less than 1% of prospective individual benefits up to perhaps 5% —in OASI—now being suggested as the model for the medical care and disability benefits.
3. The fiscal and financial dangers of under-provision and over-promising for posterity—the easing in of the head and then the

camel.

4. The copying of the Central European sense of status, of class legislation, of State Socialism, of generally alien situations.
5. The careless use of words like insurance, contributions, premiums, as-a-right, leading to muddy terminology in book-keeping, accounting, economics, sociology, politics, a verbal watering down, increasingly irresponsible.
6. Losing the effectiveness of compulsion, by erecting barriers to current effectiveness and benefits payments, at the same time that the character-building of personal choice in thrift matters is lost.
7. The audacity of promising how our children will meet their responsibilities while we turn our back on ours, which may well be smaller than those in an older age-distribution later.
8. Capricious, anomalous, discriminatory benefits during the period of 'easing in', with growing complexity in detail, and such atrocities as the Baltimore record system to force an appearance of shaping benefits to recorded earnings, which already prove the unworkability of the basis.
9. The reserve problem of collecting money to spend for other purposes, and the paying twice debate, the prodigality charge, and the co-ordinate results of too little collections for a currently functioning system, and too much money with which to play.
10. Losing the incentives to responsibility and self-sufficiency, the encouragement of loafing, chiseling, prodigality, collusion, and feather-bedding.
11. Increasing centralization of authority, with the transfer of too much responsibility to the Federal Government, where the "experts are not enough experts, not enough on tap."
12. The increase of regimentation and the loss of freedom and personal responsibility.
13. The loss of the American conviction we can do it ourselves.

An unlucky thirteen selected items from perhaps a hundred villainies — these typify the alien quality of the Welfare State, its remoteness from our classless society of free men. The villaines seem real, the hero-qualities mock-heroic.

IV. RETHINKING SOCIAL SECURITY:

Congressman Curtis in his speech on the floor of Congress on October 4, 1949, referred simply to the bankrupt system of OASI. Receivership is surely overdue. Its sterile, postponing technique must be replaced. The demand—a unilateral demand—for more gratuities, more dependence on the other fellow—leads down a very dark and noisome alley. The Welfare State is reactionary, tainted with the European malaise. We need direct, current assumption of what we set forth as our duties. We must drop the hypocracy which typifies this mock-hero role. We must set forth upon an honest twentieth century pilgrim's progress, and that with humility. If we are our brother's keeper, let us minister to his self-respect. Let us replace the sense of theatrics by an honest search for wisdom.

This is America, with its pioneer spirit, the new world of opporunity, the classless society. The Welfare State *closes doors*. Let us again throw them wide-open to that freedom which is responsibility.

Part III — Association Activities

A Memorial

John Alford Stevenson

John A. Stevenson, President of the Penn Mutual Life Insurance Company, passed away on August 31, 1949, at his home city of Philadelphia. Thus, unfortunately, premature death brought to an end an outstanding dynamic career notable for its many sided activities.

Dr. Stevenson will also be remembered as one of the outstanding constructive forces in life insurance and in life insurance education. His view was always a forward looking one, aimed to further the welfare of a great industry overwhelmingly dependent upon education. As a teachers for years at the University of Wisconsin, the University of Illinois and the Carnegie Institute of Technology, and also as a practicing life underwriter for years, he knew how to approach the problems of life underwriting, and thus made many significant contributions to an educational character. Dr. Stevenson recognized fully the shortcomings of life insurance selling as practiced during the early years of his career and had the courage to fight for a change. He sought through his teaching and the written word to instill a new concept along professional lines and to bring about in America's large life insurance field force a higher degree of competency with respect to better quality service, and professional procedure.

Those who are interested in life insurance education will always remember Dr. Stevenson as director of the first school of life insurance salesmanship at the Carnegie Institute of Technology. He will also be remembered for his many authorship contributions on teaching and selling, including his books on "The Project Method of Teaching," "Meeting Objections," "Selling Life Insurance," "Constructive Salesmanship," and "Education and Philanthrophy." These books have had great infuence upon the careers of many teachers and practicing life underwriters. Moreover ,he was editor of the Harpers Life Insurance Library. To ever so many he will also be remembered as a potent force in the work The American College of Life Underwriters, which he served for many years as trustee and secretary. His wise counsel in C. L. U. matters, as well as in authorship problems, was always sought and was generously given. We shall also remember him for his ever ready willingness to cooperate with The American Association of University Teachers of Insurance. And, in addition to all of his services as an educator, an over-all view of Dr. Stevensons energetic career must necessarily include his administrative services as Vice President of the Equitable Life Assurance Society from 1920 to 1928, and as Vice President and later as President of The Penn Mutual Life Insurance Company from 1928 to the time of his death.

Despite his extensive life insurance services, Dr. Stevenson had an astonishing record of public service along many lines. At the time of his death he served four institutions of higher learning as a trustee, namely,

the University of Pennsylvania, Temple University, University of Chicago, and The George Peabody College for Teachers. During World War II he was a member of the Navy Manpower Survey Board, receiving the Distinguished Civilian Service Award, National Vice President of the Navy League of the United States, member of the Executive Committee of the Naval Training Association of the United States, and Chairman for the State of Pennsylvania of the United States War Savings Committee of the United States Treasury Department. Philadelphia also gave him its highest honor, namely, The Philadelphia Award for Merit and Citation. Many business organizations also had the benefit of his ability as a member of their boards of directors, namely, the Pullman Company, the Avco Manufacturing Corporation, Bell Telephone Company of Pennsylvania, the Fire Association of Philadelphia, the Home Insurance Company of New York, and the Girard Trust Company. He also served on the boards of numerous welfare associations, among which might be mentioned the chairmanship of the Pennsylvania Board of Public Assistance, Director of the Y. M. C. A., and a member of the Advisory Board of the Salvation Army.

Dr. Stevenson will be greatly missed by the whole life insurance fraternity, as well as by the educational fraternity. Fortunately for us, he was spared long enough to accomplish so much that will serve as a sound foundation for others to build upon.

A Memorial

Albert H. Mowbray

When Albert H. Mowbray, Professor of Insurance at the University of California, died on January 7, 1949, the Association lost one of its oldest, most respected,and best liked members. He was, in addition to being a charter member of this Association, a Fellow of the Actuarial Society of America, of the Casualty Acturial Society, of the Insurance Institute of America, of the American Statistical Association, and of the American Association for the Advancement of Science, as well as a member of the American Mathematical Association and of the American Economic Associatoin, and an honorary member of the Fire Underwriters' Association of the Pacific.

Born March 30, 1881 in San Francisco, Mowbray received the degree of Bachelor of Arts at the University of California at Berkeley in 1904. Commencing in 1905 his was a record of wide experience and outstanding achievement in the insurance field. His first insurance position was that of actuarial clerk with the New York Life Insurance Company, which he held from 1905 to 1907. He then became actuary of the North Carolina insurance department and later of the California insurance department. In 1910 he was appointed as an instructor at the University of California.

In 1910 he first practiced as a consulting actuary, discontinuing that activity in 1913 to serve successively as the actuary of the Liberty Mutual Insurance Company, of the New York Industrial Commission, and of the National Council on Compensation Insurance.

In 1923 he became Associate Professor, and in 1928 Professor, of Insurance at the University of California, where he continued until his death. In addition to his academic work he was actuarial consultant to the California insurance department, the California State Compensation Insurance Fund, and various other bodies, public and private. He had a considerable part in the development of the Social Security Act, serving as actuarial consultant to the Committee on Economic Security in 1935 and as a member of the Advisory Council on Social Security from 1947 to 1949.

Mowbray's contributions to insurance education, aside from his work at the University were considerable. He contributed valuable technical papers to the Transactions of the Actuarial Society of America, and to the Proceedings of the Casualty Actuarial Society. His widely used general text, "Insurance, its Theory and Practice in the United States," was first published in 1930 and is now in its third edition. He assisted the Fire Underwriters' Association of the Pacific in its educatonal work.

While he was unable to take much part in the work of this Association because of his distance from its meeting places, he always showed keen interest, kept up his membership, and, by the maintenance of the highest standards in his work. kept general standards higher than they might have been without him.

Those of us who knew him valued the man as well as the technician and educator — to everyone connected with insurance his death means an appreciable loss.

Minutes of Annual Business Meeting

The business meeting was held December 28, 1949, 12:00 noon, at the Biltmore Hotel, New York City, the president, Dean J. Anderson Fitzgerald presiding

The minutes of the last annual meeting as printed in the March, 1949 issue of the *Journal* were approved.

Treasurer's Report

A mimeographed copy of the treasurer's report was submitted and approved. At the request of the secretary-treasurer, the members authorized an audit of the treasurer's accounts, to be made by a certified public accountant. Payment of an approximate fee for the audit was authorized. (The auditors' report appears on page 132.)

Secretary's Report

The secretary-treasurer reported that his office had handled the preparation of materials and mailings in connection with the continued membership campaign and in addition had carried on an extensive personal solicitation of new members. The results of this personal solicitation are reflected in the report of the membership committee. He urged that the members constitute themselves an informal membership committee and refer to him any person who might be qualified for membership and who exhibit an interest in the activities of the Association.

It was moved and passed that the president of the Association should communicate with President Herman B Wells of Indiana University to express the Association's appreciation of the time devoted to the work of secretary-treasurer by Professor Hedges.

Report of the Membership Committee

Professor Hampton H. Irwin, Chairman of the Membership Committee, reported on the activities of the committee. (A copy of the report appears on Page 000.) Professor Irwin moved acceptance of the report and discharge of the committee, since the work for which it was created had been completed. It was voted to accept the report and to discharge the committee with the thanks of the members.

Report of the Committee on Research

Professor Hedges reported that the committee had carried on considerable correspondence and that during the course of the meetings in New York, had discussed the problems facing the committee and the work which it might do. He stated that the members were in substantial agreement that lists of topics thought to require research might be accumulated from the members and compiled for distribution. There was no thought that the committee should confine itself to topics necessarily appropriate for Master's theses or Doctoral dissertions, nor should it attempt to make recommendations which would affect the policy of any institution. The recommendations of the committee would consist of suggestions of topics for research at every level, whether suitable for publication or not.

Report of the Special Committee on the Journal

Professor Hedges reported for the Journal Committee, indicating that there seemed little immediate prospect of securing the financial support necessary to launch a quarterly or semi-annual *Journal*. He reported that Dr. Dickinson had approached an anonymous patron of the Association and that while nothing tangible had yet been accomplished, there was still hope for some support from this source. The members voted to continue the Journal Committee, which would report at the next meeting any new developments regarding the feasibility of financing more frequent issues of the *Journal*.

Report of the Committee on Collegiate Preparation for Insurance Careers

Dr. Harry J. Loman, Chairman, made the following report for the Committee on Collegiate Preparation for Insurance Careers:

"Shortly before World War II, a committee of our association was working with a committee from the Association of Life Agency Officers (now the Life Insurance Agency Management Association) on a plan for facilitating the induction and training into life insurance careers of "insurance majors" graduating from our collegiate schools of business. the war interrupted this plan but the opportunity presents itself now for us to explore the whole problem again with a sub committee of the Committee on Relations with College and Universities of the Life Insurance Agency Management Association.

"To take advantage of this situation the Committee which presently comprises Dr. Ralph H. Blanchard, Dr. David McCahan and myself, suggested to President Fitzgerald and incoming President Gaumnitz that a Life Insurance sub-committee be appointed to cooperate with the Agency Managment group and a representative of the American College of Life Underwriters. They agreed and the following sub-committee was appointed: Laurence J. Ackerman, Charles C. Center, Herbert C. Graebner, Dan McGill, and Dr. McCahan as Chairman. Our sub-committee and the committee of the Life Insurance Agency Management Association arranged for a joint meeting in New York City on December 29."

Discussion was held concerning the possibility of arranging for insurance teachers to spend time during the summer months in the offices of fire and marine, casualty, and life insurance companies. The belief was expressed that a number of companies would be willing to provide a program of this kind. It was moved and passed that the president of the Association appoint a committee to consider this problem, and, with approval of the Executive Committee indicate the features of a plan which would be acceptable to the Teachers Association.

Election of Officers

The secretary-treasurer reported that the Nominating Committee had prepared its recommendations which, under the terms of the constitution, had to be duplicated and submitted to the members in advance of the meeting. No additional nominations had been received. The Teller's Committee reported a unanimous election for the following officers for 1950:

President—Erwin A. Gaumnitz, University of Wisconsin.

Vice President — Clyde M. Kahler, University of Pennsylvania.
Executive Committee—I. J. Sollenberger, University of Oklahoma (Term to expire in 1952).
Secretary-Treasurer—J. Edward Hedges, Indiana University.

Resolutions of Appreciation

A resolution was adopted expressing the apprecaition of the Association for the work of the Annual Meeting Program Committee and especially for the work of Dr. Frank Lang, Manager, Research Department Association of Casualty and Surety Companies, Chairman of the Committee on Local Arrangements, and to Mr. Woodhull Hay, Educational Editor, The Weekly Underwriter, who was in charge of local arrangements and press relations. The secretary was instructed to write to Mr. J. Dewey Dorsett, General Manager, Association of Casualty and Surety Companies and to Mr. L. Alexander Mack, President, Weekly Underwriter, extending appreciation and thanks to them for releasing a portion of the time of these two men so that they might devote themselves to the necessary arrangements for the meetings.

A resolution of appreciation of the work of the officers during the past year was moved and passed.

As the *Journal* goes to press, word has been received of the continued illness of one of our members, Joseph C. Pillion, formerly at Miami University, Oxford, Ohio. Mr. Pillion's present address is Lee Crest Hotel, 16 Fifth Avenue, Northwest, Rochester, Minnesota.

AMERICAN ASSOCIATION OF UNIVERSITY TEACHERS OF INSURANCE

STATEMENTS OF INCOME AND DISBURSEMENTS

For The Years 1947, 1948, and 1949

		1947
Income:		
Membership dues		$ 381.00
Sales of Proceedings		
Previous year	$127.50	
Others	17.50	145.00
Sales of reprints		257.24
Advertising in proceedings:		
D. Appleton Century Co.	$ 50.00	
McGraw-Hill Book Co.	35.00	
Prentiss-Hall, Inc.	29.75	
Richard D. Irwin Co.	35.00	
Ronald Press Co.	35.00	
United States Review Pub. Co.	20.00	
Rough Notes Company, Inc.		
Others		
Less discount		204.75
Elizur Wright Prize Money		500.00
Miscellaneous		
Total Income		$1,487.99
Disbursements:		
Printing Journal	$733.25	
Printing-Other	66.75	
Miscellaneous expenses of Sec-Treas.	140.65	
Bank charges	2.91	
Expenses of Annual Meeting	31.00	
Elizur Wright Prize Money	500.00	
Other expenses	10.00	
Total disbursements		1,484.56
Excess of Income over Disbursements		$ 3.43

	1948		1949		TOTAL
	$ 795.00		$1,595.00		$2,771.00
$108.00		$162.00		$ 397.50	
79.12	187.12	84.00	246.00	180.62	578.12
	36.00		.25		293.49
$ 60.00		$ 60.00		$ 170.00	
45.00		45.00		125.00	
45.00		45.00		119.75	
45.00		45.00		125.00	
45.00		45.00		125.00	
25.00		25.00		70.00	
45.00		45.00		90.00	
45.00		45.00		90.00	
(13.50)	341.50	(6.75)	348.25	(20.25)	894.50
					500.00
			36.67		36.67
	$1,359.62		$2,226.17		$5,073.78
$975.95		$913.40		$2,604.60	
156.85		43.24		266.85	
192.82		219.48		552.95	
2.74		4.01		9.66	
		100.00		131.00	
				500.00	
3.25		15.68		28.93	
	1,313.61		1,295.82		4,093.99
	$ 46.01		$ 930.35		$ 979.79

SCHEDULE I

AMERICAN ASSOCIATION OF UNIVERSITY TEACHERS OF INSURANCE — RECONCILLIATION OF CASH

For the Years 1947, 1948, 1949

Cash on hand, January 1, 1947	$ 464.78
1947 cash receipts	1,487.99
Total	$1,952.77
1947 cash disbursements	1,484.56
Cash on hand, January 1, 1948	$ 468.21
1948 cash receipts	1,359.62
Total	$1,827.83
1948 cash disbursements	1,313.61
Cash on hand, January 1, 1950	$ 514.22
1949 cash receipts	2,226.17
Total	$2,740.39
1949 cash disbursements	1,295.82
Cash on hand, January 1, 1950	$1,444.57

SCHEDULE II

AUDITOR'S CERTIFICATE

We have examined the books and records of the American Association of University Teachers of Insurance for the period from January 1, 1947 to December 31, 1949, inclusive. We have examined or tested the accounting records and other supporting evidence, but we did not make a detailed audit of all transactions.

In our opinion, based upon our examination, the foregoing schedules properly present, in accordance with accepted accounting principles, the results of the operations of the American Association of University Teachers of Insurance for the period from January 1, 1947 to December 31, 1949, inclusive.

(signed)

Dieterle and Thompson

June 30, 1950

Report

of

The Special Committee on Associate Membership and Related Matters

to

The American Association of University Teachers of Insurance

In accordance with action taken in the 1948 business meeting, the Special Committee on Membership was continued in order to consolidate and, if possible, increase the gains of the membership campaign conducted during the previous year.

For obvious reasons, the deliberations of the Committee were conducted by mail and all members were in agreement that a follow-up letter should be sent to potential university candidates to supplement the invitation extended by Dr. S. S. Huebner the previous year. Accordingly, a letter was prepared and signed personally by President J. Anderson Fitzgerald and was sent out in the late fall. We feel that the results were very encouraging,and, as a matter of fact, the returns are still coming in. As of December 28, 1949, our membership status is as follows

New Active Members

Joined as a result of letter signed by Dr. Huebner (Dec. 7, 1948)	37
Joined as a result of letter signed by Dr. Stevenson (Feb. 25, 1949)	2
Joined as a result of letter signed by Pres. Fitzgerald (Oct. 15, 1949)	6
Joined as a result of personal invitation of a member	9
TOTAL New Active Members	54

New Associate Members

Joined as a result of letter signed by Dr. Stevenson (Feb. 25, 1949)	31
Joined as a result of letter signed by Dr. Huebner (Dec. 7, 1948)	3
Joined as a resit of letter signed by Pres. Fitzgerald (Oct. 15, 1949)	3
Joined as a result of personal invitation of a member	18
TOTAL New Associate Members	55
New Members	109
Old Members	157
TOTAL MEMBERS	266

The principal objective of the committee having been accomplished, we now respectfully request that it be discharged.

For the Commitee
Hampton H. Irwin, Chairman
Curtis M. Elliott
H. Paul Abbott
Dan M. McGill
Weaver Meadows
Norman C. Davis.

Active

Membership Roster

Acker, Milton
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